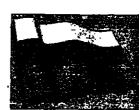


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Executives rank their peers: FT-Price Waterhouse survey



Shoichiro Toyoda Leading the Keidanren as old order crumbles Interview, Page 16



Today's survey Russia's future is in its own hands

FINANCIAL TIMES

in east German state election

Europe's Business Newspaper

German chancellor Helmut Kohl's Christian Democratic party and the opposition Social Democratic party were last night running neck and neck in the first east German state election since 1990. Exit polls for the election in Saxony-Anhalt showed the CDU edging ahead with 35.2 per cent of the vote, while the SPD, led by Rudolf Scharping, had polled 34.4 per cent. The result prompted speculation the two parties might form a grand coalition in the state. Page 22

Hebron killer 'acted alone': Israel's official inquiry into the Hebron mosque massacre con-cluded that Jewish settler Baruch Goldstein acted alone when he shot dead 29 Palestinians kneeling

ina: Shares in Italy's state-owned insurer go on sale today at 1.2,400 each, in an international public offering which will raise more than I4,800bn (\$3bn), making it Italy's biggest privatisation so far. Page 23; Lex, Page 22

Spain under pressure on ferry route: Spain must respond this week to formal complaints by the European Commission that it has disobeyed the rules and spirit of the EU's single market by refusing a UK shipping company access to the ferry route between Spain and Morocco. Page 22

S Korea protests quashed: South Korea, intensifying a crackdown on labour strife, used thousands of rlot police to crush anti-government protests by strikers and students. A total of 357 people were arrested.

China to consider HK port extension: China has told Britain it will give urgent attention to proposals at last week's Sino-British talks for a HK\$10bn (\$1.3bn) extension to Hong Kong's container port. Page 4

Russian crime decree raises concern: A decree empowering police to launch open warfare on organised crime is causing divisions among politicians and intellectuals and raising fears that combating criminality may lead to authoritarian rule. Page 3

Rebels fire on Kigali: Explosions erupted on Mount Kigali, the last large part of high ground held by the government in Rwanda's capital, after rebel bombardments brought humanitarian efforts to a standstill. Hutns see France as their

Hungary coalition agreed: Hungary's new government of former communists and liberals ssed its final hurdle when assemblies of the Socialist party and Alliance of Free Democrats approved a coalition. Page 3

KPMG Peat Marwick, one of the UK's largest accountancy firms, is considering abandoning its traditional partnership status in favour of incorporation over the next few months. Page 23

of currencies in the EMS grid was unchanged in spite of bond market volatility that caused a flight of investors to the safe haven D-Mark. In a week in which trading was dominated by dollar turbulence, the spread between the weakest and strongest currencies narrowed to just over 5 per cent from nearly 6 per cent a week ago. Currencies, Page 35

EMS: Grid

June 24, 1994 trish Punt Guilder **B.Franc** D-Mark F.Franc D.Krone Escudo

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies can fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a narrow 2.25 per cent band.

Brewers fight for China share: A tie-up between Foster's of Australia and Wheelock of Hong Kong to seek joint brewing ventures in China marks a new stage in the struggle for the country's growing beer market. Page 23

Black seeks to limit profit fall: Conrad Black, chairman of The Telegraph group, said he hoped a drop in profits resulting from an 18p cut in the price of the Daily Telegraph to 30p would be limited to £5m-£10m in a full year. Page

Boost for sustainable farming: UK government funds for "sustainable farming" have been trebled to £12m to try to reduce the use of agrochemicals and fertilisers. Industry is providing a further £12m for the scheme. Page 11

UK cross-media ownership delay: Newspaper publishers' ambitions to take over British broadcasters may have to be put on hold because a growing parliamentary logjam is threat-ening serious delays to the required legislation.

Pakistan business strikes over budget: A patchy two-day business strike began in Pakistan with many stores, offices and factories shut down but public transport and most small shops staying open. Business is opposed to budget measures, including a general sales tax. Page 4

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CDU edges ahead | Special summit called after UK vetoes Dehaene as EU Commission president

Kohl to seek successor to Delors

Pages 2 and 3

By Lional Barber, David Gardner and Philip Stephens in Corfu

Chancellor Helmut Kohl of Germany will today start urgent talks other European leaders in an attempt to head off a political crisis in the European Union fol-lowing the failure of EU leaders to agree on a successor to Mr Jacques Delors as president of the European Commission.

Chancellor Kohl, bitterly disappointed that his choice of Mr Jean-Luc Dehaene, Belgian prime minister, was blocked by what was in effect a British veto, has called a special summit in Brussels on July 15 to resolve the dispute. However informal dis-

cussions on the issue are expected to get underway today. Germany takes over the rotating EU presidency from Greece on Friday. Mr Kohl has the tricky

task of coming up with a new

candidate acceptable to all 12

member states.

Among several rumoured candidates are Mr Peter Sutherland, outgoing Irish head of the Gatt world trade organisation, and Viscount Etienne Davignon, a Belgian former industry commis-sioner who now heads the Société Générale de Belgique, the Belgian conglomerate. Mr Wilfried Martens, the former Belgian premier, is also being canvassed by some EU officials. The weekend

☐ Worst of all worlds ☐ Major saves his job ☐ Kohl rattled as protégé falls 🗆 Wider and deeper Union on the cards Editorial Comment, Page 21

muscles by promoting its own

stalemate at the Corfu summit risks triggering a confrontation between member states and the newly elected European Parliament, which is due to scrutinise the Commission president-designate at its inaugural session on July 19. Some member states were concerned that the recently elected MEPs might flex their

Under the Maastricht treaty the parliament could as a last

resort block a nomination. Efforts to reach agreement on a successor to Mr Delors broke up in acrimony early on Saturday morning. Mr Dehaene secured 10 votes at the end of two ballots. Mr Ruud Lubbers, Dutch prime minister, and Sir Leon Brittan, chief EU trade negotiator, later withdrew as candidates. The UK Dehaene caused consternation. France and Germany were angered by the British refusal to bow to what they saw as a con-

However, several member states - including Italy, Portugal and the Netherlands - agreed with the UK case that France and Germany had been heavy-handed

in pushing Mr Dehaene. The Belgian premier remains in the race. But on Saturday he made clear that he had entered the running only after prompting from other member states, believed to be France and Germany. He added that becoming Commission president was not "a

decision to continue blocking Mr must". Mr Lubbers, evidently angered at German opposition to his candidacy, said: "The German chancellor now has a big problem. Either be has to persuade Mr Major, which I doubt, or we have to find a new candidate."

The deadlock provoked further bickering yesterday. Mr Klaus Kinkel, the German foreign minister, said there was "no need" to look for a compromise candidate despite the British veto. "At this Mr Dehaene himself accused Britain of blocking his candidacy because of domestic problems. On a personal level, I have no

problem with John Major," Mr

Dehaene said on Belgian televi-

sion yesterday.

Major bolsters position within the Tory party

By Roland Rudd and Philip Stephens

Mr John Major, the UK prime minister, appeared to have temporarily strengthened his position within his party yesterday as Tory Euro-sceptics yesterday welcomed his veto of Mr Jean-Luc Dehaene as European Com-

After his humiliating climbdown two months ago over majority voting Mr Major is hop-ing that his defiant performance at the Corfu summit will appease his party's right wing enough to remove the threat of a challenge to his leadership in the autumn. The anger and bewilderment Mr Major left behind in Corfu will be followed today by noisy applause from the Euro-sceptics on the Tory backbenches in the House

of Commons. Having narrowly avoiding heavy defeat in the recent elections for the European parlia-ment, Mr Major decided that his precarious political position meant that isolation among his European partners was preferable to criticism from Conservative MPs at Westminster. However leading Euro-sceptics

warned that the prime minister's position could quickly weaken if he allowed another federalist to be appointed at the special Europe_ summit called for July 15 to resolve the issue.

The decision to use Britain's veto appalled Tory members of the Positive European group, who warned Mr Major that he could find himself in a weaker position by relying on the support of Euro-sceptics.

However, the prime minister had little choice but to use the veto following a warning from Mr that acceptance of the Belgian prime minister as Commission president would provoke a vicious backlash on the Tory backbenches.

Speaking after the summit the prime minister said he was "unperturbed" by his isolation. He said: "I believe that it is necessary, even at the expense of painful decisions and difficult moments to make sure that we have the best possible person for this vitally important job".

Mr Major attempted to play down suggestions that the move could signal a long-term crisis in Britain's relations with the other EU governments. He said that he 'warmly welcomed" the decision to hold another summit in July and was "entirely" confident that a new candidate could be found that was acceptable to everyone.

Mr Douglas Hurd, the foreign secretary, denied that Mr Major had acted against his advice in using Britain's veto, saying that he had no doubt about the "rightness" of the prime minister's course. But there were clear signs that the foreign office would have preferred to avoid an 11-to-1 position and despite his public protestations to the contrary, Mr Hurd seemed less than happy at the outcome.

The prime minister was careful to avoid any suggestion that be would veto another candidate on the basis of "federalist views". Instead he stressed that Europe needed a president whose "instincts are for enterprise, openness and subsidiarity".

On that basis he is expected to promote the candidacy of Mr Peter Sutherland, the outgoing head of the General Agreement on Tariffs and Trade.



Ukrainian president Leonid Kravchuk emerges from a polling booth in Kiev after voting in the presidential elections yesterday. The main issue for the voters was whether Ukraine should have closer ties with Russia. Kravchuk and his main opponent, the former prime minister Leonid Kuchma, are expected to be forced into a run-off as the top two candidates. Report, Page 3 Picture: Associated Press

Japanese parties begin race for power

By William Dawkins in Tokyo

Japan's political parties yesterday began the race to form new government following Saturday's resignation of Mr Tsutomu Hata's eight-week-old minority coalition.

Mr Hata stepped down rather than face a parliamentary no-confidence vote that would risk a general election after he failed to persuade the opposition Social Democratic party to rejoin the coalition. "It is urgently important for politicians sharing similar policies and ideas to establish a stable government and I will resign in order to pave the way for reform," said Mr Hata.

Japan faces a pressing economic and foreign policy agenda. with the plunge in the dollar's value against the yen, the summit of the Group of Seven leading industrial nations on July 8-10, and the nuclear threat in North Korea. Mr Hata and his cabinet stay on as caretakers until a new administration is formed.

He attempted to calm fears that Continued on Page 22 Bureaucrats cling to power. Tokyo adjusts to tempestuous

times, Page 21

Markets expect US Fed to lead support of dollar again

By Peter Marsh in London and Richard Tomkins in New York

Financial markets expect central banks led by the US Federal Reserve to repeat early this week - possibly today - their action to lift the dollar against the D-Mark and the yen.

But market analysts were scentical last night about whether a rerun of Friday's intervention would be enough to boost the US currency. If such action failed it would encourage market speculation about an imminent rise in US interest rates. A European monetary official

warned yesterday that after years in which US government officials displayed lack of concern about the dollar, the Fed might be forced into monetary tightening. "Last Friday the US authorities showed they care [about the dol-lar] - a bit," he said. The dollar purchases at the end

G7 faces hard timePage 6 built up against the dollar."

Michael Browse Page 20 Mr Paul Chertkow, global cur-Michael Prowse_____Page 20 Green-backed bear.....Page 26 Looking for action......Page 27 Bonds _ -----Page 28 Equity marketsPage 29

of last week by 17 central banks including the German Bundes-bank failed to lift the currency, which closed on Friday in New York at Y100.525 against the yen and DM1.584 against the D-Mark. In New York and London traders were confident at the weekend that central bank interven-

tion would continue but said this would provide a selling opportunity for those wanting to offload the currency. Mr Stephen Flanagan, vice president at New York stockbrokers PaineWebber, said: "There is

no question that there is an over-

rency analyst at Union Bank of

Switzerland in London said any further intervention would have to be "aggressive and concerted". But he said selling of the dollar so far this month, during which it fell sharply against the D-Mark and Yen, "has been a long way from an avalanche", with most large institutional investors on the sidelines. "The slide in the dollar is definitely not a repeat of the large-scale selling of currencies we saw in the European exchange rate mechanism crises of 1992 and 1993."

In Washington, the Fed is thought to be preoccupied with helping the US economy to recover, making it less than keen to consider an imminent rise in the short-term federal funds rate, now 4.25 per cent, to help the dollar.

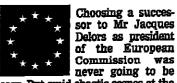
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LONDON - PARIS - FRANKFURT - NEW YORK - TOKYO

Worst of all worlds as EU leaders fail to agree



Delors as president of the European Commission was never going to be easy. But amid chaotic scenes at the

European summit in Corfu, the 12 heads of government of the EU ended up with the worst of all worlds, write Lionel Barber, David Gardner and Kerin Hope.

The Belgians are furious with the British for exercising a de facto veto against Mr Jean-Luc Dehaene, their prime minister and overwhelming favoratte. The Dutch remain resentful about the Germans blocking their prime minister, Mr Rund Lubbers. Everyone agrees that the selection process is flawed; but with the exception of Mr John Major, UK

with the summit stalemate. Responsibility for solving the crisis over the Delors succession falls,

therefore, to Chancellor Helmut Kohl. He intends to call a special summit on July 15 in Brussels, apparently calculating that the incoming German presidency can succeed where the Greeks so palpably failed in Corfu. The choice of a successor to Mr

Delors was supposed to be settled

during a dinner among the 12 heads of government at the Achilleon, a gaudy 19th-century palace built for the Empress Elisabeth of Austria which later served as a summer retreat for Kaiser Wilhelm of Germany during the first world war. Mr Andreas Papandreou, the 75-year-old Greek premier, whose heart condition is unlikely to have Lubbers and Mr Dehaene, both Christian Democrats, retired to the Corfu Hilton to await the outcome. They were replaced by deputies: Dutch finance minister Mr Wim Kok and Belgian foreign minister Mr Willy Claes, both Socialists in

their coalition governments.

Mr Major opened with a presentation on behalf of Sir Leon Brittan, chief EU trade negotiator and the only other official candidate for the top Commission post. Mr Kok fol-lowed with arguments for Mr Lub-bers, and Mr Claes for Mr Dehaene. Mr Papandreou then threw everyone off balance by calling for an immediate secret ballot.

Eight countries led by France and Germany expressed a preference for Mr Dehaene: Belgium, Denmark, Greece, Ireland, Luxembourg, PorSpain, and Italy - voted for Mr Lubbers. Sir Leon received the solitary vote of the UK.

Shortly after midnight, Mr Jacques Santer, Luxembourg prime minister, arrived at the Corfu Hilton and declared an impasse. The eting of the heads of government would reconvene at 10am on Saturday, he said.

The Spanish delegation mean-

while encouraged the impression that their prime minister Felipe González was negotiating with Mr Lubbers to reach a compromise to salvage Dutch national pride, while paving the way for Mr Dehagne. But within a quarter of an hour. the meeting was reconvened, this time chaired by Mr Theodoros Pan-

galos, the unpredictable Greek European affairs minister. Mr

Papandreou retired to bed at the Imperial hotel, though Greek officials insist that he remained in contact by telephone.

The second session was stormy. Mr Douglas Hurd, UK foreign minister, who generally steers clear of hyperbole, called the atmosphere "poisonous". Mr Kok demanded that Mr Kohl explain why he was against Mr Lubbers' candidacy, but failed to receive a satisfactory answer. "Normally the chancellor has a lot to say, but this time he didn't," said a visibly angry Mr Kok

Mr Major refused, point blank, to support Mr Dehaene. He told his colleagues: "This is not going to be sorted out tonight, I won't agree to Mr Dehaene even if it's 11 votes to

Mr Pangalos tried to ease the ten-

sion. Pointing to Mr Delors, he British made clear that Mr Debases joked: "If it continues like this, we was unacceptable to them, claiming will have to ask Jacques to stay on except he has other plans."

Mr Delors, who is in two minds about entering next year's race for the French presidency, smiled. Fer-haps lie was savouring the irony of a British veto against Mr Dehaene having the unintended effect of prolonging his 10-year stewardship in Brussels. Later, however, he specifically ruled out staying on for another five years.

in an effort to force a conclusion. Mr Pangalos called for a second vote. This time the eight pro-Dehaene member states picked up sup-port from Spain and Italy, who said they were ready to "join the consen-sus". But the British and Dutch held out for their candidates.

he represented a tradition of hig government and interventionism "Sir Leon fits the bill her Labbers fits the bill. Mr Debesne doss not." said a UK official.

Wide

anio

Once the heads of governmen resumed later that morning. Mr. Lubbers and Sir Leon withdress their candidacies. For Sir Leon it was a lost cause, the finals to the first-over public campaign for the top job in Brussels. Mr Lubbers, whose candidacy ran into an immovable Mr Kohl, had the last

"The German Chancellor now has a big problem. Either he has to per-suade Mr Major - which I doubt or we have to find a new oundidate," said the outgoing Dutch pre-

Kohl rattled as protégé falls at the last fence

Corfu summit was Chancellor Helmut Kohl. He pushed hard for Mr Jean-Luc Dehaene to succeed Mr Jacoues Delors as president of the Commission, only to see the Belgian premier stumble at the last fence. Mr Kohl clearly saw Mr

Paris and Bonn need to be a little more sensitive toward their partners, writes Lionel Barber

Dehaene as something of a protégé. Here was a politician without pretensions, skilled in the art of compromise, a fervent supporter of the need for deeper political and economic integration in Europe - in short, a man in the chancellor's own mould.

After Mr Dehaene, Mr Kohl's recent track record on personnel matters is looking mixed. Mr Steffen Heitmann, the right-wing justice minister from former East Germany, was his first choice for president of the Bundesrepublik; but he was forced to bow out after ill-judged remarks about

the Holocaust On Saturday afternoon, there was little disguising Mr Kohl's pique as he fended off questions about his own role in the Delors succession. He was particularly sensitive about why he favoured Mr Dehaene over the more experienced Mr Rund Lubbers, Dutch prime minis-

"I don't have to explain this," said Mr Kohl. The chancellor also betrayed irritation at suggestions that

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France and Germany had tried to push through their candidate without proper consultation - a suggestion which Mr Lubbers raised shortly after declaring his own candidacy

last month Mr Kohl retorted on Saturday that it was absurd to talk about Franco-German hegemony in the European Union. The idea was "mad" and "primitive", he said.

Yet the impression of a Franco-German diktat on the Delors succession gained force last month after the Franco-German summit in Mulhouse, the traditional high-level meeting in which Bonn and Paris seek to co-ordinate positions ahead of the EU heads of government

At Mulhouse, officials leaked the fact that Mr Kohl and President François Mitterrand had agreed to put forward Mr Dehaene as joint candidate. The officials described the decision as one of a series of joint positions on important EU matters such as deregulation and the future integration of central and eastern Europe.

One of the broader lessons from the Delors succession affair is that Paris and Bonn need to be a little more sensitive toward their partners. even as they draw closer to one another in the cause of European integration and are eager to show the outside world that the Franco-German axis remains secure in a Union in

Mr José Manuel Durão Barroso, Portuguese foreign minister, summed up the mood among several other delegations. France and Germany were too big countries whose co-operation was vital for the Union, but "we do not like the way this has been handled".



 Viscount Etienne Davignon: Could enter the race after the Corfu stalemate. Leading EU industry commissioner in the early 1980s. Dreamt up pan-European approaches to steel crisis and high-tech research. Not quite so successful in role as head of Société Générale de Belgique, the Belgian conglomerate. Great concentual thinker and ruthless negotiator, his appointment would signal a strong European Commission. Biggest disadvantages: too old to represent New Europe. Whether he wins or loses: still more invitations to act as Commission's unofficial Brains Trust.



 Jean-Luc Dehaene, Belgian PM: John Major's de facto veto seems to have wrecked Mr Debasne's chances. The "Carthorse" could face calls to pull out of race with dignity once Corfu dust settles. Belgian public still surprised how close he came to succeeding Jacques Delors. Can console himself that he is still young enough for a top European post. Has an important job holding together a fragile coalition government. Whether he wins or loses: fewer references to his poor table manners and more recognition that he is a top-rank politician.



Next time round, the candidates will (probably) be...

 Ruud Lubbers, outgoing Dutch prime minster.

Could rejoin race if the Netherlands, the only founder member of the Euroclub never to have held the top Brussels job. conforms to Dutch reputation for obstinacy. Trouble is, he and Chancellor Kohl are almost spitting tacks at each other, so the Dutch might field another runner. Whether he wins or loses: dignified but pungent remarks at summit suggest he's not as boring as everyone makes out. After burnt bridges of Corfu, unlikely to be going back into family bridge-



Belgian PM 1979-92 and bete noire of

Mrs Thatcher. Unabashed federalist. Irritated the UK during the Gulf crisis by holding up release of Belgian ammunition for British troops. But he is shrewd and is liked by Chancellor Kohi. Was a candidate but could not get Balgian government backing: this time he might. Three credentials: a Christian Democrat, from the Low Countries, and a former PM. But has pledged to take up his seet in new Euro-Partiament. Whether he wins or loses: proof you cannot keep Belgians away from top jobs in Brusseld away from top jobs in Bruss



general of Gatt:

Consummate self-publicist with an outside chance after deadlock. Knows Brussels after admired stint as competition commissioner 1965-88. Must quickly confect anti-British credentials and be obsequious to Prench. whom he accused of lack of leadership during last year's Uruguay Round showdown, if Germans like him, they're not telling. Whether he wins or losse: canvassing Sutherland for top international jobs is hab-it-forming, so zero chance of damage

Major plays safe by denying Denaene

British PM found it easier to fight all Europe than the Tory party, reports Philip Stephens

which Germany's weight is

ing climbdown two months ago over majority voting, the Brit-ish prime minister calculated in Corfu that isolation among his European partners was preferable to derision from Conservative MPs at Westmin-

The decision to veto the appointment of Mr Jean-Luc haene as the next president of the European Commission was dictated more by domestic than by European politics.

The anger and bewilderment he left behind in Corfu will be followed today by noisy applause from the Euro-scep-

tics on the Tory backbenches in the House of Commons. There would have been no enthusiasm in London for the candidacy of the Belgian prime minister even if Mr Major's political position had been strong. Mr Dehaene's instincts about the future shape of

Europe are not those of the British government. But after narrowly avoiding catastrophe in the recent elections for the European parliament, Mr Major decided that his precarious political position dictated that he take his opposition to the limit. .

The political backlash which followed the fiasco over majority voting – when Mr Major first signalled that he would stand and fight and then just

So this time Mr John Major did been a salutary lesson. The not blink. After his humiliat- prime minister was told by senior party managers at Westminster that acceptance in Corfu of Mr Dehaene would revive the threat to his premiership.

Mr Major did not arrive at the summit with a carefully laid plan to demonstrate his political virility by using Britain's national veto.

He had been intensely irritated at the way the Franco-German axis had operated to promote Mr Dehaene. He had tried to persuade the Belgian prime minister not to enter the race by warning him in advance of Britain's opposi-

But if he had decided in advance he could not acquiesce at this summit in the appointment of Mr Dehaene, Mr Major had hoped also for something less dramatic than a line-up of

The decision to employ the veto was taken only after a flurry of consultations with other EU leaders and with Mr Douglas Hurd, the foreign secretary, and Mr Kenneth Clarke, the chancellor, late on

Friday night. Earlier, at the request of the Greek presidency, Mr Major had completed a voting slip in which he had marked Sir Leon Brittan as his first and Mr Ruud Lubbers as his second choice for the post. The presidency said there



was no mention on the slip of a veto. Instead the British prime minister had simply placed Mr Dehaene's name third on his

At that stage there had been hopes still in the British delegation that a more generalised deadlock would allow the whole issue to be deferred until after the start of the summer parliamentary recess late next month. The recess, which runs until October, would have taken the immediate political pressure off Mr Major. But Chancellor Helmut Kohl's determination to secure Mr Debaene's appointment before the first meeting of the new European parliament on July



Douglas Hurd: looked less

could not be deferred until Tory MPs were safely away on

Despite his public protesta-tions to the contrary, Mr Hurd looked less than happy at the outcome. The foreign secretary had told cabinet colleagues before the summit that Mr Dehaene was no grand federalist in the mould of Mr Jacques

Instead he was a political Mr Fixit whose integrationist instincts would have been tempered by a large dose of pragmatism. Mr Hurd could have lived with Mr Dehaene as commission president.

The foreign secretary has indicated that he does not plan 19 changed the political calcu- to bow out from the governlation. An unpalatable decision ment in the impending cabinet

reshuffle. He has said that prime minister. Mr Dehaene hefore he leaves he wants to put in place the building blocks for Britain's approach to the 1996 intergovernmental conference on the next stage of

But there must now be a ruestion mark over how long Mr Hurd will be content running a foreign policy dictated by the Euro-sceptic wing of the Tory party.

For Mr Major the immediate political consequences of the veto will be favourable. The European election results were just tolerable enough to remove the threat of a summer crisis over his leadership, He will now hope that his Thatcherite performance in Corfu has done enough in appeasing the right to remove the remaining threat of a challenge in the

But in the longer term the picture is much less clear. In Europe, Mr Kohl will have no cause to help Mr Major out of the inevitable future scrapes that Britain will face. German of Mr Major's insistence that he must follow rather than

lead the Conservative party. Mr Major has no guarantee that the new candidate who emerges for the Commission presidency will be any less federalist" than Mr Dehaene. He explicitly acknowledged

he came from a "tradition of big government and a tradition of interventionism". No mention was made of his views on the future structure of the EU. At Westminster, the price of appeasement of the Tory right will be to antagonise further the pro-European centre-left of Mr Major's party. And it is they rather than the Euro-sceptics who have in Mr Clarke an alternative candidate for the

had been unacceptable because

premiership.

Mr Major insists he is not in thrall to the right of his party. During the European election campaign he told cabinet colleagues that his exposition of the case for a multi-speed, multi-track Europe had been misunderstood as a precursor for British disengagement from the next stage of European integration.

But it is hard to escape the conclusion that the successor to Lady Thatcher is being pulled inexorably into reposition-ing the Conservatives as the party of nationalism rather than of Europeanism.

There is a good case to be put for developing the European Union of the future as a more flexible and diverse association than envisaged by old-fashioned integrationalists. But Mr Major did that case no service at the Corfu summit.

Euro-sceptics warn PM to hold out

By Roland Rudd

euphoria among Tory Euro-sceptics yesterday over Mr John Major's blocking of Mr Jean-Luc Dehaene as the new EU president. But there was also a warning for the British prime minister: he must be prepared to use the veto again or risk losing their support.

There was unmistakeable

Britain's Euro-sceptics, who outnumber Euro-enthusiasts in the Conservative party, are delighted but could quickly turn on Mr Major if he allows another federalist to take Mr Dehaene's place at next month's European summit. Mr Michael Carttiss, a leading Euro-sceptic summed up: "If in July the prime minister

gives way to another federalist he will be finished."

It is a view also shared by some centrist backbenchers. "If by standing firm Mr Major secures the appointment of a president who is acceptable to both wings of the party he will have done himself enormous good," said another Tory MP. "But if the prime minister caves in to another federalist

he will be in a worse position." Sir John Hannam, secretary of the 1922 committee of backbench Tory MPs, said: "If the use of Britain's veto leads to the appointment of a compromise candidate, as appears to be the case, then this should satisfy the Euro-sceptics and pro-Europeans." be acceptable to all member states will have the support of

secretary, remains confident all Conservatives." that the issue of a replacement for Mr Jacques Delors, EU president, will be quickly resolved, and that a candidate acceptable to all 12 EU states can be found.

Breakfast with Frost he said there was no question of Britain accepting a renewed bid by Mr Dehaene, who stood for the "out-of-date" ideas of government intervention and centralising power in Europe. Mr Norman Lamont, the former chancellor and a critic of the government, said: "The prime minister's insistence

that the next president of the European Commission should

be acceptable to all member

Mr James Cran, another

leading Euro-sceptic, predicted that backbenchers would be "humming the government's tune". He said: "The prime minister listened to his mem-Speaking on BBC television's bers, most of whom will applaud what he has done. The role of the UK is to act as a

> But the Euro-enthusiasts of the Tory Positive European group had a warning of their own: "The Euro-sceptics are a fickie group" said one pro-European Tory MP.

They have backed him before only to castigate him once he backs down. And Mr Major will have to accept a federalist of some sorts at the

The government climbdown earlier this year over qualified majority voting enraged the Euro-sceptics who were led to believe that the prime minister would resist the new voting

A number of backbenchers believed that the prime minister had little option but to use the veto since the Conservatives had made it an issue in the European elections.

Sir Norman Fowler, party chairman, yesterday said the Corfu summit showed that the Tories were the only party prepared to use the UK's veto. But having used it once, the prime minister may be under pres-sure to use the veto again as the price for the continued sup-port of the Euro-sceptics.

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Corfu summit ended ill-tempered chaos because of EU leaders' failure to agree on a successor to Mr Jacques Delors, they did. amid the Ionian splendour and balmy weather, get some work

The summit set an agenda for further "widening" of the EU to east and south, and set in train preparations for "deep-ening" integration at the 1996 Maastricht review conference. In the follow-up to the Delors White Paper on jobs, competitiveness and growth, endorsed by last December's Brussels summit, the heads of govern-

ment signed up to a balanced package of "an open economy... geared to solidarity": flexible labour markets and deregulation on the one hand but, on the other, assured finance for trans-European infrastructure and a 10-gun salute for the elected works councils in pan-Ruropean com-panies that all member states except the UK agreed to set up

The summit began by put-ting in place four more building blocks in the construction of post-communist Europe.

The leaders of Austria, Finland, Sweden and Norway signed their accession treaties to the Union, aimed at bringing them in next year. Austrians this month approved entry in a referendum, but the three Nordic countries still face difficult plebiscites on membership this autumn.

The summit conclusions therefore devoted praise to the newcomers, "in the vanguard of the efforts to promote environmental and social protection, transparency and open government, areas considered essential by a large part of the Union's citizens" in this month's Euro-elections. The EII was self-critical of its own feeble measures on open government, stating that these require further elaboration".

The partnership and free trade agreement with Russia signed at Corfu. described by British Prime Minister John Major as "the most comprehensive agreement ever concluded between the Union and any other country", followed the similar agreement signed with Ukraine in Luxembourg last

Unexpectedly, the 12 put a figure, of Ecu500m (£385m), on the aid they are willing to provide Ukraine to shut down the Chernobyl nuclear plant and replace them through the completion of three (rather than,

as expected, five) nuclear reactors already under construction. The controversial plan is placed in the framework of adequate safety standards", effective measures on electricity pricing, energy saving and alternative energy sources, and the ratification of the Vienna

convention on nuclear liability. The Ecu500m looks like the opening EU bid, to encourage the US and Japan to stump up serious funding for the plan at next month's Group of Seven summit in Naples.

Third, the summit welcomed the membership applications this spring from Hungary and Poland, and affirmed that the association agreements with these two countries and the Czech and Slovak republics would be used to propel them towards entry. The summit

European leaders did make progress on non-Dehaene matters, reports David Gardner

ved a similar agreement with Slovenia, and set itself the goal of extending this umbrella eventually to the Bal-

Fourth, and to the satisfaction of the EU's Greek hosts, the summit stated that "the next phase of enlargement of the Union will involve Cyprus and Malta", subject to the resolution of the Cyprus conflict. This is also subject to suc-

cess in the 1996 constitutional review of EU decision-making, presented at Corfu as a precondition for further enlargement. To this end, the summit created a "reflection group" to begin work in June next year on "the weighting of votes, the threshold for qualified majority decisions, number of members of the Commission" and any other reform "deemed necary to facilitate the work of the (EU) institutions and guarantee their effective operation in the perspective of enlarge-

The main participants in this group will be named by foreign ministers of the 12 and the Commission president. But mit Germany and the Benelux countries overcame British and French objections to letting in the European Parliament, two representatives of which "will participate in" - rather than merely "be associated with" the group's work. Mr Kohl wants Mr Defors to chair the

INTERNATIONAL PRESS REVIEW

An event of less than

group, a move likely to be resisted by the UK should the outgoing Brussels chief assent. In the White Paper discussion, the summit called for all increases in productivity to the end of the century to be ploughed back into investment

and jobs, and more effort to Shifting some of these costs on to the environment reappeared on the EU wish-list, with the summit "taking note" of the still stalled EU discussion on carbon and energy taxes. The conclusions endorsed a

fast-track approach to liberalt-sing energy and telecommunications networks. It also agreed on a priority list of 11 trans-European transport links, including high-speed train links across the channel, through Austria's Brenner pass, and from France south to Spain and Italy and north to Germany. A list of energy projects will be studied further.

The controversy over raising additional EU funding for these predominantly privately or nationally funded projects appears more or less resolved. The summit "confirms that measures will be taken - if proved necessary - in order that priority projects do not run into financial obstacles that would jeopardise their implementation'

This victory for Mr Delors was followed by two others: the reaffirmation of the EU "social dimension" as an indis pensable corollary to the single market; and the deal to name a minister in each member state responsible for co-ordinating all aspects of information technology development, a main theme of the white paper.
The deregulators, led by Ger-

many and the UK, got their task force as well. This will do a cost-benefit analysis of not only EU but national legislation to weed out obstacles to iobs and competitiveness. But it will be run by the Commis-sion and can be expected to focus strongly on national red

Looking forward to the successive German and French EU presidencies, the summit endorsed the Franco-German call for a global strategy to combat racism and xenophobia in Europe, with a timetable running up to next June's sum-

The conclusions draw a veil over the Delors succession crisis, but note that the recent ing that "the Union will be judged by its citizens" on the strength of the measures it takes to defend their jobs and

, Any other business? |Anti-crime measures split Russians

A decree empowering Russian police to launch open warfare on organised crime, which is due to come into effect today, is causing divisions among pol-iticians and intellectuals and raising fears that combating criminality may lead to authoritarian rule.

The campaign was authorised by a decree from President Boris Yeltsin two weeks ago and was deemed by the parliament last week to be unconstitutional. However, General Mikhail

Yegorov, the first deputy inte-rior minister and Russia's top official on organised crime, brushed aside deputies' objec tions, saying they were acting out of self-interest.

"Checks on bank accounts will show what financial support certain politicians have. It's only natural; they don't want this information made public," he said.

Mr Victor Stepashin, head of the Federal Counter-Intelligence Service (FCS) - successor to the KGB - said last week: "I'm all for the violation of human rights if the human is a bandit or a criminal." This view may be popular: crime has long since topped the opinion polls as the issue of greatest public concern. The decree allows suspects

to be held incommunicado for up to 30 days; authorises searches of offices, flats and hotel rooms without warrants; and gives police the right to open bank accounts to scrutiny. "Bank or commercial secrets cannot prevent investigation of criminal acts," said

Gen Yegorov. Even Mr Yeltsin has not tried to claim that it is constitutional - the constitution, for example, allows a period of

Sweeping new decree could revive bad old days of authoritarian rule, reports John Lloyd



Boris Yeltsin: says clampdown is justified by the crisis

only 48 hours for being held without charge. Mr Yeltsin argues that the clampdown is justified by the crisis into which crime is plunging the country.
Its scale, in Russia and the

other former Soviet states, is attracting great international concern. Mr Louis Freeh, director of the US FBI, leaves today for a 10-day trip to Russia and pean nations for talks on how to control the spread of crime particularly in the areas of theft of nuclear material and

Commenting on Mr Yeltsin's decree. Mr Freeh said it attempted to hold back "an avalanche of violent crime threatening the very structure of government". US officials estimate Russian

gangs have 100,000 members awaiting presidential signa- fax news agency.

While the decree and the activity are likely to be popular among people who now witness both greatly increased violence and conspicuous luxury on the part of criminals bombings alone have gone up from 16 in 1993 to 118 in only the first six months of 1994 - it is tearing Russia's politicians

ture. This would give the former KGB back many of its for-

Figures published by the Russian authorities over the

weekend point to huge rises in drug use and crimes. The fig-ures show 1.5m addicts in Rus-

sia as against 800,000 in 1992.

almost a doubling in two years,

and claim that Im hectares are

now growing the hemp from

which opium is made, while

400 farms have been turned

over to narcotic production.

Mr Grigory Yavlinsky, bead of the reformist Yabloko fac-tion in the lower house, with Mr Anatoly Sobchak mayor of St Petersburg, at a World Economic Forum confer ence in Moscow last week on

The former claimed that the president was tearing up his own constitution and the latter defended the necessity for it before society was engulfed in

Though Mr Yavlinsky claimed the prosector's office was "in chaos" under the twin pressures of a presidential decree on the one hand and a constitution on the other, Mr Alexei Ilyushenko, the acting public prosecutor, appears to support the decree.

"It is a question of whether the state can bring the Mafia to its knees - or vice versa," Mr Ilyushenko told the Inter-

Turn-out high for Ukraine election

By Jill Barshay and Chrystia Freeland in Kiev

Ukrainians turned out in large numbers yesterday for their first post-independence presidential election. Preliminary results are not expected until later today, but most observers expect top contenders, President Leonid Kravchuk and Mr Leonid Kuchma, the former prime minister, to face each other in run-offs on July

Opinion polls on the eve of the elections suggest that Mr Kravchuk has made a near miraculous transformation, from the man who destroyed Ukraine's economy, to the only leader who can guarantee the country's stability. "I know that nothing has changed for the better under Kravchuk, things have got worse," said Mrs Yulia Sokol, a 40-year- old engineer who cast her ballot for the incumbent in central Kiev. "The most important thing is to keep the peace."

Manipulating state television with his considerable political skill, Mr Kravchuk in recent weeks seems to have successfully reshaped the national debate. Now, instead of being about repairing the economy, it is about maintain-

ing national independence and stability. Even Mr Kuchma, who was the clear front-runner until very recently, has been forced on the defensive. As former director of the Soviet Union's largest nuclear missile plant, Mr Kuchma comes from the heart of the old regime and has advocated closer ties with Russia. However, campaigning in central Ukraine on the eve of the elections, Mr Kuchma was forced to tone down his

pro-Russian rhetoric. The need to defend his Ukrainian credentials has diluted his image as a strong man who can impose law and order and revive the Ukrainian economy. The most likely result is that Mr Kravchuk and Mr Kuchma win the bulk of the votes, but neither an outright majority. Under Ukrainlan election

law if no candidate wins more than 50 per cent of the vote in the first round, the too two compete in a second round. Analysts are wary of making

predictions. Following the surprisingly strong showing of a firebrand outsider in last week's presidential poll in Belarus, Ukraine's traditionally quiescent neighbour, some pundits warn an upset is possihie here as well.

If Ukrainians defy the pre-dictions, their votes could go

in two very different directions: the hardline socialist candidate and chairman of parliament, Mr Oleksandr Moroz, or Mr Volodymyr Lanoviy, a reform-minded economist and former cabinet minister. These outsiders, and Mr Kuchma, could be the benefi-

Hungary parties agree coalition

Hungary's new government of former communists and liberals passed its final hurdle yesterday when assemblies of the Socialist party and Alliance of Free Democrats approved a coalition.

In last month's parliamentary elections the Socialists gained an absolute majority of seats. But the Socialists were aware of the concern aroused, both internationally and domestically, by the prospect of oneparty rule by former communists, however reformed. The Free Democrats' nominal

as a safeguard of sorts that Hungary will stick to its free market and western orien-

and are linked with US, Sicil-

ian and Colombian drug traf-

that foreign intelligence ser-

vices - especially those of the

Baltic states - are using Rus-sian gangs to destabilise the

Russian state. He claims that a

decree, re-establishing the for-

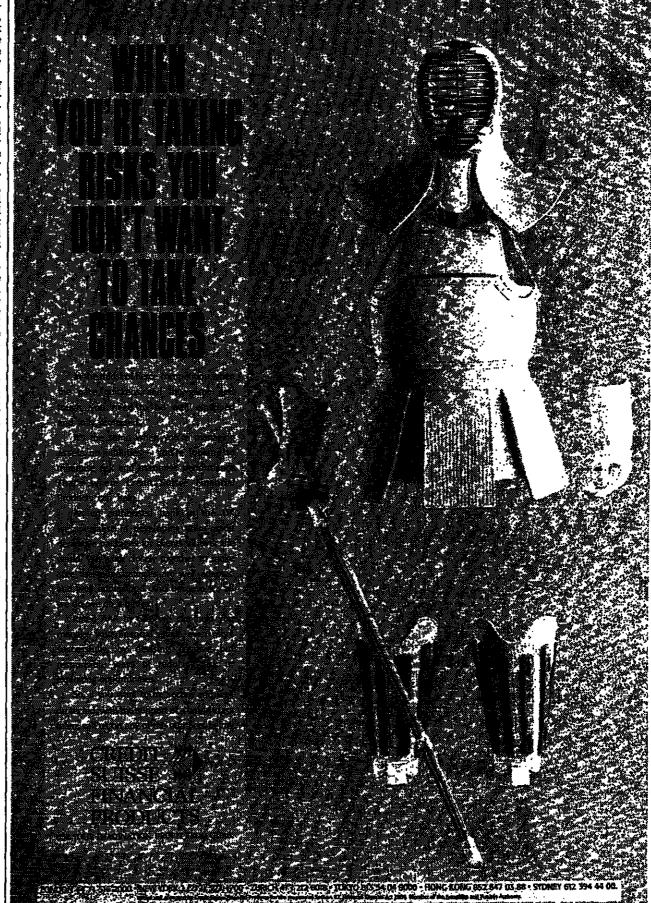
merly banned investigation department in the FCS, is

Mr Stepashin has claimed

The alliance gives the new government the broad support and legitimacy it needs to implement austerity measures to deal with large budget and current account deficits. The way is now clear for Mr Gyula Horn, 61-year-old leader of the Socialists and former foreign minister, to be sworn in as Hungary's prime minister and to As expected, Mr Laszlo Bekesi, finance

ment, will return to the post. With another Socialist nominated to the Industry and Trade Ministry, the former communists are set to dominate economic policy.

The new government plans to introduce protectionist measures to curb imports. It promises bankruptcy law reform to keep companies alive if it would cost more to close them, and rapid privatisation of banks and utilities. That and the forewarning of energy price increases add to the likelihood that the \$1bn-plus sell-off of the power industry will go ahead soon.



By Kerin Hope

GREECE

So thin was the Greek coverage of the Corfu summit that a reader flipping the pages of an Athens tabloid could have missed it completely, despite Greece's role as host. Even heavyweight newspapers were reluctant to let it overshadow the weekend's main preoccupations: an imminent reshuffle of Prime Minister Andreas Papandreon's cabinet after the governing Socialists' poor showing in the European elections; and a list issued by the Finance Ministry, naming for the first time Greece's 200

worst tax offenders.
"All's well on Corfu - except for the succession," headlined Kathimerini, the heavyweight daily, adding that the Europenn leaders' failure to agree on a new Commission president was "a blow to the already low stature of the

European Union".
To Vima. the other sober Greek newspaper, focused on what it called Friday night's "political thriller" as Mr Theodoros Pangalos, Greece's European affairs minister, attempted in the early hours to steer through the candidacy of Mr Jean-Luc Dehaene, the Bel-

gian prime minister. The UK veto on Mr Dehgene provoked little comment. Only Kathimerini gave it front-page coverage, saying that "Britain torpedoed Mr Dehaene's elec-

Argi, the left-wing daily, concluded: "The complications in electing a new Commission president indicate that the process of European unification will be slowed down, and will be slowed down, and in changing the exceptionally there could be a period of negative image that prevailed

stagnation in EU activities."
For the Greek tabloids, there was only one story from the to greet Mr Silvio Berhusconi, the Italian prime minister, at the signing ceremony for the EU's pact with Russia

Ethnos, along with half a dozen other papers, gave a col-ourful account of the "the vendetta between Pangalos and

Eleftheros Typos described at length the efforts by Greek government officials to cover up an embarrassing moment between the Greek Socialist. who refused to greet the Italian right-winger, including the Foreign Ministry spokesman's assertion that "nothing like that happened".

Several papers printed a picture, taken at the previous night's official dinner and produced later by the Italian government spokesman. It showed the burly Mr Pangalos gripping

Mr Berlusconi's hand. Mr Pangalos's gesture in refusing to greet Mr Berlusconi won approval from most news-papers, which have given widespread coverage to the Greek

But Eleftheros Typos's politi-cal column noted disapprovingly: "Greece is traditionally a hospitable country and Mr Pangalos should have been aware of that. It's not a question of culture but of Greek social custom."

However, opinions were mixed on whether Greece's six-month EU presidency had

proved successful. Kathimerini concluded that "in general, Greece not only responded to the challenge of the presidency, but succeeded in changing the exceptionally

summit importance at the start of this six months." Concluding both the EU enlargement talks and the agreements with Russia and Ukraine "gave a boost to Greece's role on the European and international scene at a time when the country was

getting worryingly low ratings".
But Apogeomatini, the conservative evening newspaper maintained that the summit "revealed the nakedness of the Greek presidency, which was unprepared on everything and made no attempt to promote issues of broader Greek interest which are also of European interest. It has been a lost

opportunity."

Kathimerini's opinion column added some advice for politicians and diplomats handling Greece's disputes with its Balkan neighbours and Turkey, based on watching the EU at work: "Greece's foreign pol-icy problems have to be presented to international organisations on the basis of study, specific plans and modern diplomacy. Our arguments must be realistic to presuade our allies. A disjointed presen-

tation of unyielding positions

leads to failure." One achievement at the summit, hailed mainly on the econmic pages, was Greece's inclusion in three projects in the EU's plan for trans-European transport and energy networks. But several newspapers also ran gloomy commentaries on Greece's revised plan for economic convergence with the rest of the EU, announced just before the summit. Eleftheros Types said: "The tragedy of the convergence plan is not just that it won't lead us to Europe but that there will be four years of austerity in the mean-time."

Peking to speed up HK port dealings

in Hong Kong

China has told Britain that it will give urgent attention to proposals made at last week's Sino-British talks for a HK\$10bn (£857m) extension to Hong Kong's container port. The colony possesses one of

the world's busiest container ports, but the construction of the ninth terminal (CT9) has been delayed because of the poor atmosphere surrounding Sino-British relations. The consortium building CT9 has also been engaged in negotiations with the Hong Kong government over the price and terms

The consortium. which includes the trading houses Jardine Matheson and Hutchison Whampoa, was locked in dispute with the government over who would be responsible for access made and bridges to CT9. Both sides were trying to get the other to shoulder the

However, company executives said that signs of improvement in Sino-British ties, which have been evident since the spring, encouraged the consortium to reach agreement with the government so that an agreed position could be presented to China for

By Tony Walker in Beijing

China is opening its shipping industry to foreign investors

and is liberalising access to

ports as part of attempts to

meet requirements for entry to

the General Agreement on Tar-

Mr Huang Zhendong, com-

munication minister, said Chi-

nese partners must hold a

majority stake in newly-formed

ventures serving local water-

ways, and senior posts must be

Conditions for foreign inves-

tors seeking partnership in

Chinese shipping are similar to

those being offered for civil

aviation. Beijing announced

would welcome foreign

involvement with local air-

iffs and Trade

held by Chinese



Patten: taking no chances

approval. Precise details of this agreement are not available but one company executive said details of the land grant "substantially been

China's undertaking to deal expeditiously with CT9 might emerge as the only real prog-ress made during the 29th meeting of the Joint Lizison Group (JLG). Its meeting was dramatically suspended on Thursday until today to allow the two sides to reach an agreement on the transfer of military land.

However, it is unclear

official China Daily, said for-

eign companies would be

allowed to become involved in

cargo-handling at Chinese

ports and would also be per-

mitted to operate some inland

also set up wholly-owned agen-

cies to canvas cargo, issue doc-

uments and negotiate con-

tracts for their ships. However

wholly foreign-owned busi-

nesses would be excluded from

Foreign shippers and ship-

ping agencies have long com-

plained about China's highly

restrictive policies, including

barriers to fair access to Chi-

China has also made it very

difficult for foreign shippers to secure contracts for mainland-entry negotiations.

China's domestic waterways.

Foreign companies could

and coastal shipping routes.

China opens shipping

industry to foreigners

A failure to agree will inevitably raise doubts about China's recent overture to Britain to improve relations. But whatever the result of the JLG talks there remains a general expectation that Sino-British ties will improve after the Legisla-tive Council (LegCo) votes this Wednesday on Governor Chris Patten's democracy proposals for the conduct of the colony's

the differences between the two sufficiently. Officials said

talks would continue this

The vote by members of the 60-strong assembly is expected to be very close. Over the weekend an aide to Mr Patten said the government was certain of 26 votes and was confident of three or four others. But the governor is taking

no chances. He has been actively lobbying LegCo members for support and will do so right up to the vote. Senior members of the Liberal party, a conservative group which wants to water down his proposals, have also been trying to

Mr Patten attacked the Liberals' proposed amendments, sting they would lead to elections which could be

the subject of repeated repre-

Mr Huang promised a

"favourable environment" for

foreign investors seeking

opportunities in the develop-

ment of China's wharves. But

these ventures which are vital

to the national economy must

China, which is seeking to

when it comes into being next

efforts to meet Gatt require-

group on China is due to con-

discussions will help expedite

have Chinese majority share.

Tokyo civil servants believe reform will fail to curb their role

Bureaucrats cling to power

bureaucrats and elected politi-

cians. In the years of LDP rule

a cosy proximity had built up

between the ministers and the

functionaries who nominally

With ministers moving rap-

idly between jobs, often in

place as a result of political

favours rather than talent or

experience, the scope to domi-

nate was considerable for the

bureaucrats - a highly edu-

But the end of the LDP hege-

mony has not brought with it a

substantial decline in the

bureaucrats' power. Some even argue that it has been

enhanced. In the words of one

political analyst. The political

crisis has distracted the politi-

cians from the business of gov-

erning, the bureaucracy has

been left to get on with its own

served them.

By Gerard Baker in Tokyo

At a meeting with journalists earlier this month, a senior bureaucrat at one of the more influential ministries was asked whether the current political uncertainty in Japan was adversely affecting the

execution of policy.

The facial expression of pained bewilderment at the naiveté of the questioner was more eloquent than the answer itself: "The government may change," responded the nation's servant, "but the policy remains the same." It was a disarmingly candid

admission, even from a Japa-

nese bureaucrat. But in the current crisis, it neatly highlights the largely unchanged distribution of power in the Japanese political system. The collapse of 38 years of Liberal Democratic party rule last summer was thought by

The Ministry of Finance sits at the pinnacle of the country's many to herald also the end of civil service power. The new prime minister. Mr Morihiro power structure. Mr Jiro Saito, the respected vice-minister (the Hosokawa, pledged to redress

top civil servant), at the minis-try has spent most of the last year fighting for an increase in consumption tax to offset the fiscal effect of the large income tax cuts that take effect this

His attempts to secure the tax increase were rebuffed in February when the socialists (then members of the coalition) resisted it. But Mr Saito continued the

hattle, and last week he was reappointed for a rare second year in his post. Few of his colleagues expect the ministry But bureaucrats do not enjoy

untrammeled power, as Mr Sai-to's earlier setback suggests, and some analysts believe their role is about to diminish. Mr Douglas Ostrom, at the Japan Economic Institute, points out: "Bureaucrats disagree with one another and are reluctant to initiate substantial policy shifts on their own politicians need to do the dirty work of brokering agreements and selling proposals."

And the long-awaited deregulation of Japan's economy will take away many of the bureaucrats' functions. So far, however, there has been little substantive progress in translating the widespread desire for deregulation into action. And only those measures with the bureaucrats' blessing have been enacted.

The political reforms enacted in the last year may yet also bring about a decline in the ministries' power. When an election is held under the new rules the current instability may give way to a government, legitimised by a majority, and committed to reform.

But the bureaucrais are, as yet, untroubled. They accept the arguments for political and institutional reform, but they do not believe it will seriously diminish their role. Their justification is simple: the system works. They played a big part in bringing about the Japanese economic miracle and, though tarnished of late, they argue the miracle is still intact.

Diary of Japan's descent to chaos

which Japan's politics have been transformed from stability into choos began in the late 1980s with a series of scandals that caused the splintering of the Libersi Democratic party (LDF) and, nitimately, the end of its

Following defeat in a no-confidence motion the LEF lost its overall majority in elections last July.

Since then, coelition governments have grappled with the problems of politics reform, foreign relatio the longest recession since the second world war in a climate of almost perpetual

M August – Japan New Party leader Moribiro Hosokawa. omnitted to political reform. chosen as prime minister at the head of a seven-party coalition, including the eccialists.

Bookness.

E November 18 - Bills stand
at reforming Japan's corrept
political system passed by
Lower House of the Dist and
sent to Upper House, where
they are bogged down in
controversies over budget an foreign calls for the opening of Japan's rice market.

Mexical

shed to

M January 20 - Reform measures passed by Upper House committee, and sent

M January 21 – Full Upper House votes down reforms, watered-down version later essed with LDP backing **E** February 4 – Hosokawa suddenly announces new, 7 per cent consumption tax to mee proposed income tax cuts designed to lift economy out of recession. Furced to withdraw plan five days later. ■ February 11 - Trade unit with US President Bill Clinton ends in failure after Hosokawa rejects US demands to set numerical targets for opening up Japanese m M March - LDP blocks tax-cutting budget in attenut to force Hosokawa to clear doubts over a shady 1982 loan he is alleged to have used for M April 8 - Hosokawa resigns abruptly to take responsibility for parliamentary deadlock

and for questionable ent of his personal funds in the 1980s. 🖪 April 25 – Tsutomu Hata of the Japan Renewal Party elected prime minister with socialists' help. Later that day they leave

coalition in protest at what they see as efforts to marginalise them. ■ April 28 - Hata forms Janan's first minority government since 1948. June 23 - With tacit backing of LDP and Socialists. budget is passed. LDP immediately submits no-confidence motion. ■ June 25 - Hata announces resignation of cabinet.



Four North Korean soldiers just inside the demarcation zone watch yesterday as a US serviceman (right) talks to his South Korean counterpart ahead of talks between north and south on the nuclear issue tomorrow.

Pakistan business strikes over budget's tougher tax regime

By Farhan Bokhari In Islamabad

A patchy two-day business strike began yesterday in Pakistan with many stores. offices and factories shut down but public transport and most small shops staying open.

The FPCCI (Federation of Businessmen oppose the gov-Pakistan Chambers of Commerce and Industry) - Pakistan's largest business organisation made up of some 120 trade associations and 30 business chambers, called the strike to protest against the budget. announced earlier this month.

ernment's plans to introduce a general sales tax, new excise duties on an ad valorem basis to be collected by tax officials with the powers to search, and other measures making stringent demands on those who query their tax assessments.

ness capital and Lahore, the country's second city, factories and large offices were closed, but small shops ignored the call to strike. The Karachi Stock Exchange, which had announced business as usual, closed for an hour because of the absence of jobbers but then officially reopened despite lack of business. The smaller Lahore and Islamabad bourses remained officially open but trade was negligible.
The FPCCI warned it would

In Karachi, Pakistan's busi- consider further measures to press its case, later this week.
"We will continue our protest...We will not sleep after these two days," said Mr S.M. Muneer, federation president. The Pakistani government has taken a tough stand against the FPCCI and Prime

Minister Benazir Bhutto suggested over the weekend that the strike was in part politically motivated. Some senior government officials accuse Mr Nawaz Sharif, the former prime minister, to have encouraged the business reac-"I appeal to professional

businessmen who have no political affiliations to think of the national interest" said Ms Bhutto. She defended the budget measures and said: "We cannot allow people to live in huge palaces and not pay

The new measures include a requirement that anyone appealing against their tax assessment deposit 25 per cent of the assessed tax demand

Senior officials justify the move on the grounds that in order to restrain the growing budget deficit, the government must confront the chronic problem of tax collection falling behind target. In the past, taxpayers have been able to appeal against their tax assessment by paying a nominal court fee. As a result, over 50,000 cases are awaiting verdicts and the taxpayers involved owe some Rs10bn

have been unable to resolve is control of Kabul, a pleasant

city of 1.5m which was mostly

intact when the Soviets left.

Today it is a collection of bat-

tered ruins - at least 10,000 of

its inhabitants have been

killed since 1992, including

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Afghans exchange one hell for another The fighting has created thousands of refugees, writes Stefan Wagstyl

spent the last month in a shelter made of sheets in a refugee camp in the sweltering heat of eastern Afghanistan.

Around them are hundreds of other make-shift shelters and thousands of tents. The rocky ground is so hard it takes five men a week to dig a lattine. Nothing thrives in this desert except scorpions; there are no trees, no shade from the sun and no escape from the wind. Children die daily from dysentery and malaria.

"It's very hard to live in the open," says Mr Khan, who cannot find space for his family in a tent. "But we don't see any hope of going back home."

Relief agencies estimate there are about 150,000 refugees in and around the town of Jalabad. Most have fled the latest outbreak of fighting in Kabul, the capital, which began on January 1. The rest have come from other parts of Afghanistan. As Mr Sotorios Mousouris, the UN secretary general's personal representative for Afghanistan, says: "You can imagine how hellish conditions must be, if people are ready to come to these camps to escape the fighting and to get food."

Hard as life is in the battle zones of Kabul and elsewhere, it could soon get worse. Mr Burhanuddin Rabbani, the president whose writ does not extend much beyond his rumed capital is due to step

r Kutub Khan, his down tomorrow under the last month. But he has yet to wife and their four terms of a power-sharing find a formula acceptable to small children have accord reached two years ago the rival warlords and Mr with rival mujihadeen leaders. But he is refusing to go - to the intense anger of Mr Gulbuddin Hekmatyar, the noninal prime minister and head of mujihadeen forces trying to

ter from Kabul.

"warmonger".

destruction, Mr Boutros Bout-

ros-Ghali, the UN secretary

general, is trying to bring

Afghan leaders together for

talks through a mission headed

by Mr Mahmood Mestiri, the

former Tunisian foreign minis-

ter, who visited Afghanistan

Hekmatyar, for one, views the initiative with deep suspicion. Only five years ago, Afghan-istan was the focus of world attention. But after the Soviet. invaders marched home in 1989 artillery fire continued to hit areas still con-

An artillery barrage and air raids swept opponents of Afghan President Burhamddin Rabbani from their last main position in Kabul trolled by Dostum and Prime Minister Gulbuddin Hekmatyar's Hexb-i-Islami forces on the yesterday, but the opposition retaliated with southern and eastern outskirts. Dostum retalizted, and two jets from his bombing strikes on a western city, writes Reubases in northern Afghanistan dropped eight bombs on the centre of Herat, 630 km west of

dead and more than 210 injured, most of them civilians, in two days of fierce battles in the capital, Kabul, and the western city of Herat. President Rabbani's fighters launched a relentless artillery and rocket bombardment on bases of ex-communist Gen Abdul Rashid Dos-

Officials and hospitals reported at least 28

allies were preparing a similar offensive in the run-up to the scheduled expiry of Rabbani's tum on Tapae Maranjan mountain. Sporadic term in office tomorrow. wrest Kabul from the control and the communist governof Mr Rabbani and his military chief Mr Ahmad Shah Masood. Mr Hekmatyar told journalists in Jalabad this month that

ment they left behind collapsed in early 1992, international interest has waned. But the fighting has not. About 4m out of a population of 20m are still he still wants a peaceful settleliving outside the country. ment. "But if the other side insists on staying in power that will mean war." Mr Rabprincipally as refugees in Pakistan and Iran. Three bani has said he cannot quit accords between the nine waruntil there is peace and has condemned Mr Hekmatyar as a ring mujihadeen factions -. Peshawar 1992, Islamahad 1993 and Jalalabad also 1993 - have Anxious to avoid further failed to end the civil war.

While Soviet troops were in Afghanistan, the fighting was. mostly in the mountains and the villages. But after they pul-led out the mujihadeen pushed into the cities, dividing up ter-ritory between them, according to their regional strengths. The

over 2,500 this year. About 500,000 have fled their homes, 300,000 hiding in the city and the rest mostly in the camps around Jalahad

Kabul. "All targets and casualties were civil-

assault after reports that Hekmatyar and his

Rabbani's government decided to launch its

ians," a UN official said.

The city is being defended in Mr Rabbani's name by Mr Masood, the defence minister, who inherited much of the Communist army's supplies. They are financed principally by shipments of Afghan currency from Russia, where it is still printed - much to the annoyance of Mr Rabbani's

The chief attacker is Mr Hekmatyar, the leader of the Hezb-i-Islami guerrillas, the favourites of Pakistan and the US in the war against the Soviet forces. Late last year.

main issue their bloody battles Mr Hekmatyar scored a coup by persuading General Rashid Dostum, master of the Uzbek minority in northern Afrhanistan and a former ally of President Rabbani, to change sides and bring his troops into the battle for Kabul. But the tactical advantage was eroded earlier this year when Gen Dostum's forces lost control of Kabul airport in flerce fighting with Mr Masood's men.

Outside Kabul, power is largely in the hands of local warlords such as Mr Ismail Khan, an ally of Mr Masood. who has brought a measure of peace to the western oasis of Herat, and Mr Abdul Qadir. governor of Jalalabad in the east, which lies across the main road from Kabul to Pakistan. In the countryside, particularly in the mountains, power is fragmented even further - a few villages can make a man important, as long as he has guns. These men take money from wherever they can, notebly from the fast growing her oin trade.

It is hard to see what can bring an end to this anarchy. With its complex mix of tribal and ethnic groups. Afghan-istan has never been a strongly united country and Afghan leaders have often been quick to settle their disputes by fighting. The involvement of the Soviet Union and the US in their wars has left them with an enormous arsenal with which to pursue their quarrels at the expense of people like Mr Khan and his family.

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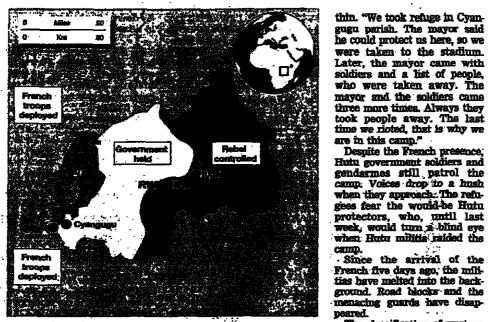
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notice at the border post between Bakavu post perween Zaire and in eastern Zaire and Cyangugu in south-western Rwanda, one of the last remaining bastions of the country's Hutu government and army, reads:

"Attention Zaireans and Banto people! The Tutsi assassins are out to exterminate us. For centuries the ungrateful and unmerciful Tutsi have used their powers, daughters and corruption to subject the Bantu. But we know the Tutsi. that race of vipers, drinkers of untrue blood. We will never allow them to fulfil their dreams in Kivuland."

Those crowding around the border post nod their heads in agreement. They have welcomed with open arms the French intervention force which began deploying last week. Red, white and blue bunting festoon the dusty town of Cyangugu. French flags flutter from cars and mopeds.

"The French have come to save us from the [Tutsi-led rebel] Rwandan Patriotic Front," says a local craftsman. "The RPF is the army of the Tutsis. They kill their president and now they want to kill all Hutus who wield power." uncovered mass graves. In the Less than 10 miles away, village of Shangui, women French troops guard the last were washing blood stains



locality. It is not known how many were killed in the 10 weeks of slaughter that fol-Nyarushishi sits among tea lowed President Juvenal Haby arimana's death in an air crash in April. The first Weach for slopes like rows of terraced tea ays into western Rwanda have

The refugee camp at

plantations. The makeshift

shelters cling to the steep

were taken to the stadium. Later, the mayor came with soldiers and a hist of people, who were taken away. The mayor and the soldiers came three more times. Always they took people away. The last time we rioted, that is why we are in this camp." Despite the French presence,

Hutu government soldiers and gendarmes still patrol the camp. Voices drop to a hush when they approach. The refu-gees fear the would-be Hutu protectors, who, until last week, would turn a blind eye when Hutu militis raided the

Since the arrival of the French five days ago, the mili-tias have melted into the background. Road blocks and the menacing guards have disap-The classification of western

Rwanda has made the inter-

vention of a few hundred French troops appear devastatingly simple. But the change is The French presence may act as a deterrent to further killings, but the gulf that separates the Hutus in Cyangugu from the Tutsis at the refugee camp cannot be bridged by a

foreign intervention force The Hutus' welcome is based on a misunderstanding: they regard the French as their allies, not as the neutral humanitarian force they profess to be. Having propped up General Habyarimana's mili-tary government for years, the Hutus clearly expect the

Since the arrival of the French five days ago, the militias have melted into the background

French to push the rebels, who control two thirds of the country, back into Uganda. Even if the French expedi-tion avoids taking sides in the conflict, their presence in western Rwanda may act as a buffer force between retreating government troops and the

At the camp, the refugees worry about what will havoen to them when the French leave. Rather than salvation, the Tutsis fear they have only a brief reprieve

Hebron report urges Leslie Crawford in Rwanda reports on the intervention force's arrival segregation at prayers

Jews and Moslems should be completely segregated at the Tomb of the Patriarchs in Hebron, where 29 Palestinian worshippers were murdered by a Jewish fanatic four months ago, and Jewish worshippers should be banned from carry-ing weapons at the site, an Israeli inquiry into the massa-

The Commission of Inquiry, which investigated the February 25 slaughter at the Hebron sque; cleared the government and senior military and police officers of any personal blame for the incident, which inflamed Arab-Israeli tension and delayed implementation of the peace process.

The inquiry said Dr Baruch Goldstein, the man who fired 111 builets into Palestinians kneeling in early morning prayers and was then beaten to death by survivors, acted alone contrary to the testimony and allegations of several Palestinian witnesses. The five-man commission blamed insufficient security precautions, indiscipline of Israeli guards at the mosque and poor co-ordination between police, border police and the Israeli army. The Ibrahimi mosque, once a

built on the site on the Tomb of the Patriarchs or Cave of Machpelah - the traditional burial place of the biblical patriarchs Abraham (Ibrahim), Isaac and Jacob and is intensely holy to both Arab

The report was welcomed by the cabinet, minister of police and army chief of staff but conmed by the Palestine Liber-

ation Organisation.
"Tidgo" think that the act in the Hebron mosque was an individual act," said Mr Nabil Shaath, Palestinian "minister" for international co-operation. The Israeli government and the policy of (Jewish) settlement carry complete responsi-Hebron municipality, which described the report as a

Israeli government of continu-ing to "oppress" Palestinians by refusing to re-open the mosque and the central mar-Col Moshe Givati, former army commander of Hebron,

also questioned the report.
"The commission points at a series of faults but finds no-one ble." he told Israel radio. However, by recommending

iting Jews carrying weapons the commission clearly points to the fallacy which underlined Israeli security operations at Hebron: that Jews were at risk from Arab attacks and not

It was never expected that a Jew coming to pray at the mosque would open fire on Pal-estinians," said Gen Shlomo Gazit, former military co-ordinator in the occupied territories. Gen Gazit said the military and police had never made contingency plans for such an event because it could not have been

However Gen Gazit, who was in charge of Hebron when Jews first re-settled there after the 1967 Arab-Israeli war, said: "The writing was on the wall for a long time. If you allow two different religious to pray in the same place and these two religious are in a political, ideological and religious conflict then this calls for trou-ble." Gen Gazit said he personally recommended that new security precautions be taken at other religious sites where Jews and Moslems mingle such as the Temple Mount in Jerusalem; the ancient synagogo in Jericho and the tomb of the

Mexican minister asked to stay on

in Mexico City

Mr Jorge Carpizo, Mexico's underlines the fragile unity in respected interior minister the ruling 252 party, and charged with supervising this was yesterday under urgent pressure to retract his resigna-

tion submitted on Friday.

Mr Carpizo said he wished to quit after denouncing those in society who opposed democratic reforms. President Carlos Salinas immediately resign several times because of rejected the resignation. Yes opposition within the PRI to terday a government official implementation of democratic said there were signs that Mr. reforms. Mr Carpize said in his Carpizo would change his resignation letter he was

the key official in government valdering what is good for efforts to persuade opposition. Mexico, indicating his frustra-parties and the wider public. then extended to the governing

his mind, his att the ruling PRI party, and potential for further upsets before or after the August elec-tion. Mr Carpizo is allied with the reformist wing of the party, which has steadily lost

power in recent months to the

hardline faction.

Over the past months Mr Carpizo has threatened to mind, but that an agreement "indignant and distlibutioned" had not yet been reached. With the most "diverse sectors" Mr Carpizo, who as interiors of Mexican politics, who were minister is head of the Federal is only fighting for their interests Electoral Institute, has been for of their group without con-

that the presidential vote party. US 'blacklist' worries world shipowners

A crackdown on substandard shipping by the US Coast Guard is provoking concern among the world's shipowners.

Some are worried that, the "blacklist" of companies whose vessels have been targeted for special safety checks when they enter US waters does not distinguish between serious offenders and those caught for

They are also concerned that the list, compiled for internal use by the coast guard but available to any inquirer under the US Freedom of Information Act, could be commercially damaging. Shipowners not on the list see it as a means of gaining competitive advantage.

The International Chamber of Shipping, based in London, said that the principle of tar-geting substandard ships had been accepted in many countries but that publicly naming offenders had to be undertaken carefully when it could have commercial repercussions. "It's a bit like reporting a road transport company because one of its lorries had a puncture," said Captain John Joyce,

marine manager.
The coast guard's initial list was compiled in May and comprised 120 companies whose ships were to be targeted for special checks. A revised list, which with 187 names, became

available last week. Fears about the threat to the marine environment following the grounding of the oil tanker Exxon Valdez off the coast of Aleska in 1989 prompted the tougher action by the US authorities, and a number of other countries have plans to

introduce "blacklists". The coast guard's current includes several well-known shipping companies as well as many smaller owners, managers or operators. One of the companies to appear on the list is Shell International Shipping, which has a fleet of about 70 gas carriers and oil tankers. Shell was put on the list because one of its gas carriers

Charles Batchelor on dangers and confusion arising from listing sub-standard

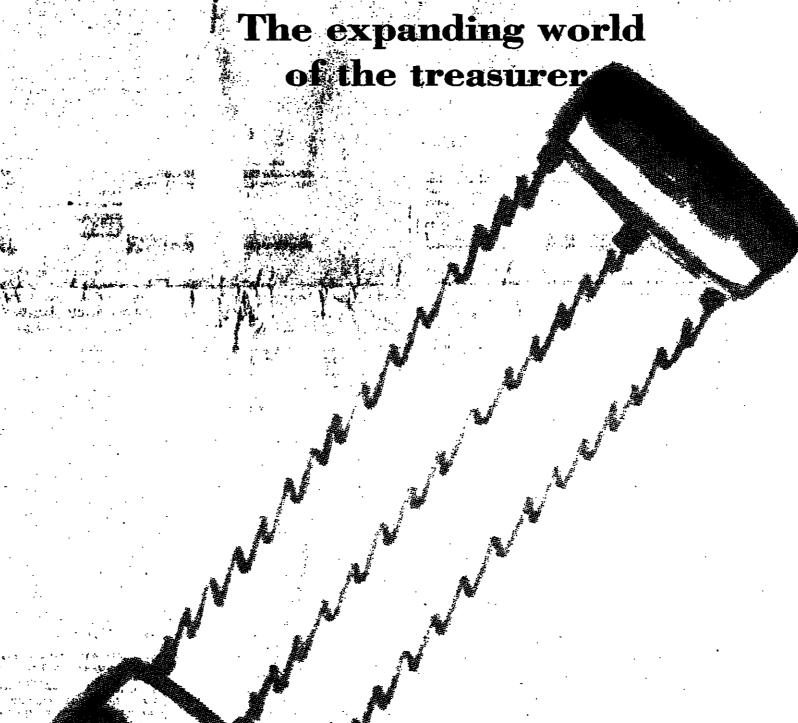
was found to have two four-inch cracks in its deck after a was very minor stuff," said a spokesman. "It was not struc-tural and we repaired it in situ. Our vessels are maint

and we would say we are extremely responsible owners." The similarity of many names in the shipping industry has also led to confusion with Worldwide Ship Management, a South American company which appears on the list, being mistaken by some readers of the list for World-Wide

ers of the first for worst-wide Shipping Agency, a Hong Kong group, which does not. The coast ghard uses a unique identifying number for every company but this does not appear on the published lists.

This was intended to be an internal document to help our marine safety officers use their resources better," said Commander Peter Popko, a senior US coast guard official. "We should not be boarding vessels with a good history, Because of Act the list is available to the

The coast guard believed its list was based on sound information but, if new evidence emerged, it would be willing to adjust its programme, he said: This has been running for less than two months and we are



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nent disappears in to-As traditional Treasury day's changing financial environment, your bank's role should expand to meet the new challenges.

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What's more, they can rely on local know-how and backup from more than 1700 offices throughout the world. That's the muscle. We're also evolving into an advisory role where making a deal is never as important as building up a long-term

relationship, in which price is not the only factor, new products have to be proven before being sold and where we always strive for an added value, even in difficult commodity markets.

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G7 faces hard time to keep the lid on the \$ |US court backs

FT reporters look at the likelihood of upsets this week in world currency markets

he Group of Seven leading industrial nations has 11 days to stop the dollar drama turning into a cri-

As G7 leaders approach their annual summit in Naples at the end of next week, they want to avoid any perception in financial markets they are unable to arrest the fall against the D-Mark and Japanese yen of the world's leading trading currency. But on the evidence of last week the G7 -US, Japan, Germany, France, Italy, Britain and Canada – will have its work cut out.

Heavy intervention on Friday by most of the G7 central banks, backed by central banks in other European countries, failed to lift the dollar from its lacklustre position against other main currencies.

On Friday night in New York the dollar closed at Y100.525 against the yen and DM1.584 against the D-Mark, below the levels at which the central banks first intervened earlier that day. Since the first week of June, the dollar has



slipped about 5 yen -- last week

briefly passing under Y100 - and 8 pfennigs. Many investors believe Friday's efforts to buy dollars led by the US Federal Reserve will have to be repeated early this week, perhaps today, in a further show of strength to prop But in both the US and Europe, currency analysts said

dollar had taken root. "I don't think anyone wants to hold a buck right now," said a dealer at a Japanese hank in New York. Mr Stephen Lewis, research director at London Bond Broking, a securities dealer, said: "The dominant mood in the market is that the dollar has further to fall."

Behind these thoughts is that the Fed is judged unwilling to consider a rise in short-term interest rates to defend the dollar. Such a move could jeopardise the US recov-ery, the main drive behind signs of stronger economic conditions throughout the indus-trialised world.

Meanwhile, the perception has grown that the Bundes-bank is unlikely to continue cutting short-term borrowing rates, because of signs of economic pick-up in Germany.

As a result, many think the gap between short-term interest rates in Germany and the US is about to widen, after months of general narrowing.

bank rates in Germany are about 4.9 per cent and in the US about 4.6 per cent - the further they move apart the more incentive investors have to hold D-Marks.

Also holding back the dollar against the yen is the large Japanese current account sur-plus with the US and lack of progress in trade talks between the two countries.

Mr John Lipsky, chief economist at Salomon Brothers, the US investment bank, said last Friday's intervention had at least succeeded in dispelling doubts about the intention of US authorities and G7 partners to quell currency instability. "It's hardly the last word: there is likely more action to come," Mr Lipsky said. But the chances of success of

further rounds of intervention are open to question. One European monetary official said much Friday's support for the dollar was "pretty much token", coming after years of general lack of concern in the

"Unless the Americans back up

action [an increase in interest rates) the moves won't have much impact," he said.

A further question mark can

be raised over the willingness large-scale operations to boost the dollar. Any action by the German central bank to buy increase in the German money supply, playing havor with the M3 money-supply calculations the bank uses to judge economic conditions. For this reason there is "general scepti-cism about the Bundesbank's willingness" to 'intervene, according to Mr Gerry Hol-tham, chief European economist at Lehman Brothers.

Nervousness over the dollar is expected to continue to spill over to world band and equity markets, which were fragile last week on fears about how an increase in US interest rate could endanger signs of global economic recovery.

Mr Roger Bootle, chief economist at Midland Global Markets, said even if US borrowing

intervention with a policy rates went up, the same would not necessarily have to happen in Europe. But he added: "In 13 vears I have never seen a situation where the bond markets were more lacking in confidence than they are now."

He said pressure on the dollar was exaggerated by many investors' over-enthusiasm for the US currency last year. They had built up large stocks of dollars and were now keen to sell. And he believed that although Japanese institu-tional investors had cash to invest, many had seen the value of their overseas holdings whittled away by currency shifts and were no longer prepared to buy foreign exchange assets. "The Japa-nese are the buyers of last resort and if they don't come in [to support currencies] this can cause problems," Mr

Peter Marsh and Peter John in London and Richard Tomkins in New York

property rights

By George Graham in Washington

The US Supreme Court has given new weight to the rights of property with a ground-breaking decision to limit local governments' power over private landowners.

In upholding shop-owner Mrs Florence Dolan's lawsuit against the town of Tigard, Oregon, the court ruled that governments must prove that the planning requirements they impose on landowners must not only be related in nature to some legitimate pub-lic purpose but that also must be "roughly proportional" in

Mrs Dolan had challenged Tigard's demand that, in return for permission to double the size of her plumbing and electrical supply store, she set aside roughly 10 per cent of her property to building a storm drainage system and a bicycle

The 5-4 vote revealed one of the principal fault lines

left wings, and greatly increases the importance the justices attach to the "takings clause" of the constitution. which prohibits the taking of private property for pub-lic use without just compensa-

"We see no reason why the Takings Clause of the Fifth Amendment, as much a part of the Bill of Rights as the First Amendment or Fourth Amendment, should be relegated to the status of a poor relation." wrote Chief Justice William Rehnquist in the majority

The First Amendment's right to freedom of religion, speech and association and the Fourth's right to be secure from unreasonable searches seizures have generally ranked higher in the court's

priorities.
Justice John Paul Stevens, writing in dissent, said the court's right-wing majority had broken "considerable and unpropitious new ground".

There have been no reports of hooliganism – feared by officials – but a han on taking flag-poles and other sharp objects into the

successful. New Jersey police have

the gates on crutches, then pulling their flags from their underwear

stadiums has not proved

noticed a rise in leg injuries

among spectators.

"People are coming through

and flying them from a crutch, said police spokesman John

anything. You can't take a guy's

really be injured or disabled."

crutches away from him. He might

Hagerty. "And we can't do

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OROUP A

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GROUP C

WORLD CUP

Still hot, but with dull patches

Jurek Martin in Washington forecasts some



that it is far too good to last. The beginning of the downhill slide appeared to have come last Thursday night when, after 16 matches, a goal-less draw finally took place. The fact that it was between South Korea and Bolivia loved only by their mothers, and that there has not been one since, might seem to suggest an aberration, but there are other bits and

right and proper to make the case

pieces of evidence, m'lud.

The earlier game that day - Italy vs Norway - was pretty dour stuff, too, obscured by the fact that the Azzurri eked out a 1-0 win while playing three-quarters of the game with only 10 men and without Roberto Baggio, withdrawn from the field in either the bravest or dumbest coaching decision of the World Cup. Norway's lack of imagination was conspicuous.

A day later, Mexico (two) and Ireland (one) managed to double the goals (three) previously scored in Group E. But, allowing for the unquenchable enthusiasm of Irish and Mexican fans in the Florida heat, there was simply not enough in the match to dissuade the neutral observer from going for a beer or checking out Wimbledon on the cable channel. (Brazil, on present form, would never drive anyone to drink – except Champagne).

The battle of the European flatlands - Belgium vs Holland - on Saturday only produced one goal. As such games go it was pretty good, but you could sense that the two sides would probably have settled for neutralising each other if they had not been neighbours in competition for the next presidency of the European Union.

The first-round matches, when one loss does not necessarily mean elimination, have enabled some sides, especially those with every-thing to gain by holding nothing back, to play out of their socks. The prime example has been Switzer-land, with a World Cup history as memorable as its national political system (favourite trivia question: name any Swiss politician). But several other teams, including the US and Saudi Arabia, have exceeded all

As the tournament progresses.



Shin Hong Gi of South Korea (left) and Bolivia's Erwin Sanchez tangle during the first goalless draw

however, playing to entertain may take second place to playing not to lose or to win by the necessary minimum, especially if the heat does not abate. Germany have already done this twice while Argentina, looking better all the time, came out for the second half against Nigeria determined mostly to sit on

a one-goal lead.

Admittedly, the number of red and yellow cards handed out so far - an average of 3.8 per game for a mere felony, plus seven capital offences, and almost all to defenders - ought to give offensive teams an edge, which was doubtless the intention of Fifa, soccer's governing body, in its instructions to referees.

ut most of the 22-man squads are loaded with interchange-able midfield and defensive parts, which is why Baggio was considered expendable when his team

fell a man short.

Nor has the World Cup yet produced great contrasts in styles. Most teams now play a similar sort of game, chasing everything, mixing long and short balls, trying to get out wide for the cross, bringing up tall defenders for corners and free kicks. Even Brazil's methodology conforms to type, though they play it better, while Nigeria's varia-tion is only that, when allowed, they counter-attack at warp speed. Virtually no tactical innovation has been unveiled here. Even Maradona's dead-ball artistry, especially with the quickly-taken free kick, has been seen before, though perhaps not in Greece or Nigeria.

This may mean that, as the competition gets tighter and as teams lose the capacity to surprise that comes with unfamiliarity, conservatism will prevail. And that implies After all, at this level, soccer is a

game played by professionals who are not in the business of being embarrassed or outwitted. The same applies to US sports. Baseball regularly introduces young phen-oms who start out blasting home runs or striking out batters by the

But the old pros sooner or later sort most of them out, discovering their weaknesses: that they cannot hit breaking balls or that they fall into a predictable pitch pattern. There are enough good soccer brains around to apply similar les-sons, as the Swiss did to Gheorghe Hagi of Romania, for example, simply denying him the ball in forward positions in the second half.

Exceptional performers can rise above all this, and it may help if a player or three imposes himself on the tournament - as Moore and

Maradona have in the past. Romario, Bebeto, Dunga, Rai and Leonando have all shown this ability to transcend but unfortunately, for all except Brazilians, they play for the

Even the poor Russians solved most of the problems posed by Romario by clutching his shorts, shirt, neck and ankles and assuming the wall would be enough to block the subsequent free kick. It may not have been edifying but only twice, when Romario escaped to score himself and when he was fouled inside the penalty area, did the tactic fail.

So, unpopular as the proposition may be, m'lud, it could be that the World Cup has passed its high-water mark. The US team might not progress much further, thus diminishing domestic interest, as might not the Irish, thus lessening brewers' interest. The fans could start getting antsy, too, as they did in Los Angeles after Mexico-Ireland (luckily the game

was played in Florida). And here is an heretical thought: the World Cup has been great so far in mostly awful hot weather, but relatively cooler fronts are rolling in. What if it turns out that soccer is only played at its best in extreme heat? The prosecution rests.

Charlton in stands spells a day's peace and quiet

ireland manager Jack Charlton – barred from the touchline for tomorrow's make-or-break World Cup Group E match against Norway - has battled officialdom for most of his career, but has always had a reputation for

Fifa, soccer's governing body, was becoming more and more irritated by his whingeing and his behaviour at the World Cup. Result: banishment from tomorrow's game - Charlton is

free to watch it from the stands for shouting at officials. He was also fined 20,000 Swiss Francs (nearly £10,000) as was the Irish PA. Ireland player John Aldridge was fined 2,500 Swiss Francs for what Fifa called 'ill-mannered behaviour" during

in Orlando. Ireland's fans will worry about the effects on their team. Non-Irish fans are hoping for day's peace and quiet.

last Friday's 2-1 defeat by Mexico

S American glants on target for final

Brazil and Argentina have never met in a World Cup final, but their form indicates that they may be on course for a meeting in

Pasadena on July 17. Both won their first two games convincingly. If they contin to win, they will avoid each other during the three knock-out stages that stand between first-round qualifiers and the final.

Diego Maradona, Argentina's orn-again star, is producing his best form since guiding Argentina to World Cup victory eight years ago. Argentina meet Bulgaria in their final Group D game on

Tomorrow, Brazil - who have already thumped Russia (2-0) and Cameroon (3-0) — play Sweden in Group B.

Germany may miss key defender

German defender Thomas Strunz has been hurt again and may miss today's Group C game against South Korea. Strunz hurt his right hamstring again during a light workout, before the Germans left

Chicago for Dallas. "This is a setback. If Strunz can't play, I have to rethink everything again," said German coach Besti Vogts. Germany, the holders, have four points and look certain to qualify for the second

In Dallas, the Germans practised at the Southern Methodist University field in sixtling heat. "They have to move; they are top-fit and the heat can't be an excuse," said Vogts, recalling that Germany's opening game against Bolivia (1-0) was

played in similar conditions. Strunz missed the Bolvia match but returned for the game against Spain (1-1) and is a key player on the right.

Vogts was angry with his team after the match against Spain, and tensions have been high. "We have to prepare our mid-field better. We want to beat the Koreans. We want to win Group C because we want to stay in Chicago for our second-round match," he said.

Korea still have a chance of reaching the second round. Defender Kim Pan Keun aud mid-fielder Lee Young Jin, injured in last Thursday's draw against In today's other match - also Group C – Spain play Bolivia in Chicago.

Nigeria coach ponders defeat

Nigeria's coach, Clemens Westerhof, didn't mess about

defeat by Argentina on Saturday.
"I congratulate Argentina on scoring two goals while my players were busy talking with the referee," he said. What did he think of Maradona? "I thought he played well at first. But later he became tired and complained like a baby."

Police facing crutch dilemma

Security precautions have been tense at each of the nine World

Rem	<u>i</u> hing	first-round	schedule		
ith;	Group	Venue	Time*	Match	
xdey	C	Chicago Dalisa	9.00pm 9.00pm	Botivia vs Spein Germany vs S. Korea	
Monthly	E . B	New Jersey Weshington San Francisco Detroit	5.30pm 5.30pm 9.00pm 9.00pm	Ireland vs Norway Italy vs Medico Russia vs Gameroon Brazil vs Sweden	
ed 29/6	F ·	Ortando Washington	5.30pm 5.30pm	Morocco vs Holland Belgium vs S. Arabis	
turs 30/6	D ·	Boston Delles	12.30em 12.30em	Greece vs Nigerie Argentine vs Buksarie	

stage, July 2-5. The quarter-finals will be played on the v New Jersey and Sen Francisco; the sents on Wednesder Angeles); and the final on Sunday, July 17 (Los Angeles).

internal flights and transport to every a Unfortunately, the talent that can score a goal in the World Cup doesn't always stretch to finding the stadium.

The technology services behind WorldCopUSA94 ## For further information call Bill Wright on (44) 81 754 4318.



ADVERTISEMENT

Global Perspective Provides Competitive Edge

Japanese companies are trying to adjust to the "bonderless age" in which the lines of demarcation among long-established political and economic structures worldwide have blurred.

While some companies greet the new age with trepidation, Toshiba Corporation views the greater globalisation of its business as the key to enhancing its competitiveness and raising efficiency. Toshiba President Fumio Sato explains why he welcomes the dawn of the "borderless" era.



McCulloch: Internationalisation is widely viewed as offering solutions to many of the problems facing Japanese companies, such as rising trade friction and the yen's strong appreciation against the US dollar. What is Toshiba's view on this?

Sato: In Japan internationalisation—the globalisation of business—was originally thought of as just the scale of overseas operations: the number of bases, the level of sales and production output. It was also exportoriented and coordinated from the centre, from Japan. By these criteria, Toshiba is very much a global organisation. We have more than 80 business bases around the world; our 30 overseas production bases last year generated output worth ¥400 billion, and during the same period we recorded overseas sales of

1993 Overseas Sales Worth ¥1.4 trillion

However, we do not think this kind of approach to globalisation is sufficient, nor do we believe it can continue in its present form. It doesn't help us to deal with lower levels of competitiveness triggered by the yen's appreciation or the stronger competition we meet from foreign products in our domestic market.

We see our operations as forming more of a network linking equals, with Tokyo as an important centre, but not the only one. We expect an erosion of the borders between Japan and overseas and see truly global operations as borderless.



McCulloch: What do you see are the advantages to Toshiba of this borderless approach?

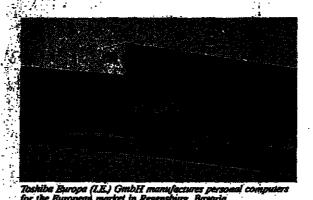
Sato: Transcending borders in its global organisation will give Toshiba greater flexibility in all aspects of our operations. We will be able to respond more promptly to political and economic changes, and deal more effectively with such problems as currency appreciation and trade imbalances.

Speed and Competitive Power

McCulloch: How are you going to realise this borderless style of operations? Is there any key to getting there?

Sato: If there is a key, it's a familiar one: companies must offer competitively priced products that meet market demands, and do so in a speedy fashion. That sounds easy, but there's an array of problems to be solved before these goals can be achieved globally.

Look at the problems facing exportoriented companies. It's becoming increasingly difficult to export competitive, everyday, products from Japan. The strength of the currency works against it. We need to be able? to procure less expensive materials as we need them. On top of this, we have to make our inventory systems highly responsive, keeping inventory at as low a level as possible. We have to be sensitive to market needs, and able to



develop leading-edge products quickly. It's a tall order, and the key to achieving these goals

McCulloch: What exactly do you mean by

Sato: At Toshiba, it has a double meaning. First there is logistics as an innovation in management. This establishes a common system that closely links and encourages collaboration among our production, sales and technology-development. operations. What we want here is a system that lets us respond quickly and precisely to the market. In this way, to take one example, people developing technology get input on needs from sales people. The ultimate goal is to reduce the time taken for development, production and sales, and to cut down on inventory.

Logistics, used in an international context, also explains our system for optimising global production and diversifying procurement. The ultimate goal here is to boost competitive

Logistics Seen as Key

McCulloch: What strategies are you following to achieve these goals?

Sato: In the first sense, as a management system, we aim for precise control over the resources that management has at its disposal and to promote strategic alliances with other companies. Secondly, in our international operations, we are targeting diversification of procurement and an optimised system of global production.

McCulloch: If I understand correctly, that's four clear themes: resources control, strategic alliances, diversified procurement and optimised production. Can we look at each in more detail? Sato: Certainly.

McCulloch: How do resources?

Sato: Our business is constantly evolving. In the 1970s, consumer products and heavy electrical apparatus accounted for most of our sales by far. Today, the major part comes from information/communication systems and electronic devices. With our business structure shifting in this way—towards products based on rapidly advancing technologies—time and timing are critical factors for any management strategy. This is where responsiveness comes in. Speediness in every facet of our business activities, including production, sales and distribution, is an important means to establishing our predominance in the market and overcoming severe competition.

With the borderless operations we envisage, we must be prompt in incorporating market needs into our products. So speediness is not only a way of responding, it's a resource in itself. It energises us and keeps us in front, ahead of the pack. We are encouraging an inhouse understanding of Toshiba as a product community, one grounded in speed and sensitivity. In this way, we try to cut the lead times for development, production and sales, reduce inventories to a minimum and improve our utilisation of management resources-manpower, materials, capital, information and time.

Strategic Alliances Maximise Resources

McCulloch: You seem to have a strong conviction of the value of strategic alliances. Sato: Yes. Alliances are attractive for a number of reasons. For example, the digital revolution and the development of multimedia can only reach fruition through the crossfertilisation of technologies, bringing together partners from the media, communications and computing. We are contributing here through our links with Time Warner and other companies. Another consideration is cost. New technologies require enormous investments in research, plant and equipment. Alliances like ours with IBM and Siemens for development of 256-megabit DRAMs allow the partners to maximise the use of their resources, realise cost advantages and speed up development. Moreover, the diffusion of the developed technology also encourages competition at the production stage. Finally, the dynamic pace and vast extent of modern technology is just too much for any single company. Today, no company can avoid incorporating technologies from other companies in its products. The best way to do that is by building up trust and working together in design-in and similar

Competition, Cooperation and Complementarity

Until recently, many companies saw tieups with competitors as incompatible with seeking to win in the market. But we believe that strategic alliances with competitors enable us—and our partners—to respond to rapidly changing markets. Our basic approach to alliances is to always keep in mind the three "Cs" that underpin successful relations: Competition, Cooperation and Complementarity.

McCulloch: What exactly do you mean by diversification of procurement?

Sato: The strong yen is encouraging more foreign corporations to enter the Japanese market, while at the same time it erodes the competitive strength of products and components made in Japan. One solution to this lies in more diversified procurement: bolstering international procurement and increasing imports to Japan, and promoting greater local procurement at overseas production bases. We are raising local content ratios and expanding imports. We have also set up international procurement offices, which we call IPOs, in nine locations around the world, including London. Through adopting these measures increased imports to Japan, including imports of semiconductors, and greater local procurement by local subsidiaries—we are striving to become more competitive.



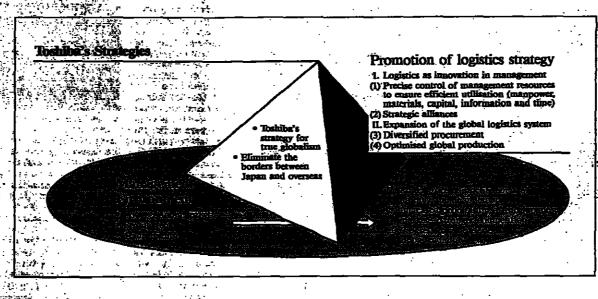
McCulloch: Turning now to the final theme, could you expand on what you mean by optimal production?

Sato: In the global network we are aiming for, business must develop along both global and local lines. Some products are becoming increasingly international in nature. Products like electronic components, which are built to international standards with only very limited local variation, should be manufactured for the world market at whichever place best ensures our international competitiveness.

But then there are products that meet specific local needs and demands. Household appliances are designed for very localised needs and markets, and need to be developed, manufactured and sold within that market. Toshiba embarked on production of commercial-use air conditioners in the U.K. in 1991, in addition to colour television sets, in order to provide products suiting the Euro-

This selection of production sites which best match the character of the product, along with diversification of procurement, is the foundation for a global logistics network.

At Toshiba, implementation of these policies has improved our responsiveness and competitiveness. As the borderless economy develops, we will continue our efforts to develop a logistics strategy that promotes further



In Touch with Tomorrow

FINANCIAL TIMES ___ Awards -RESPECTED COMPANIES PRICE WATERHOUSE

Europe's business leaders choose the competitors they most respect, in a survey by the Financial Times and Price Waterhouse. This two page special report reveals the top 25 companies, from six countries and 17 sectors. The survey throws up some intriguing themes. Europe's top business people are increasingly prepared to look across borders in search of competitors to emulate - and rivals to fear. But national

business cultures still vary in the emphasis they place on different qualities. German companies place more emphasis on training, for example, British companies on market leadership and France on keeping staff happy. Overall, the survey offers, perhaps, the first clear snapshot of the Europe's new business pecking order. And the winners are...

Customer loyalty and clear policy top agenda

By Paul Taylor and Peter Martin

most respected companies include a retailer which has stuck to its core business and an international engineering group largely created over the past

six years, Marks and Spencer, the high street retailer, almost a national institution in Britain, and ABB Asea Brown Boveri. the pioneering Swedish-Swiss multinational industrial group, emerged as clear winners whe too executives were asked to identify their most respected European companies, regard-

Both companies won the praise of their peers, in partic-ular for their leadership and management qualities. ABB's supporters highlighted the group's strategy, while M&S's customer focus attracted much

support. M&S received particularly strong backing from UK-based respondents, while ABB won more broad-based support from executives across Europe. Both companies obtained the most votes from companies in their

respective sectors. The survey asked senior executives in each sector chairmen, chief executives and finance directors - to identify their most respected competitors on seven dimensions of excellence: customer focus. staff, products and services. business performance, leadership and management, strategy, and environmental issues.

Respondents were invited to identify the qualities behind these judgments and to nominate the European company Because this is the first peer

group survey of its kind in Europe, year-on-year compari-sons are not possible. In addisectors, for example steel, property and entertainment sectors, were low and have been excluded from the sector

The questionnaire was sent to 637 companies, achieving a response rate of around 30 per

cent relatively high for a tencourt, daughter of the postal survey. There was a slightly higher response from the UK. Since the results are based on the views of those executives who did respond, they are impressionistic rather

which span 17 different sectors and nine countries across Europe, provide a unique snapshot of senior management attitudes and current thinking, providing some important insights into which qualities Europe's business leaders most

highlight the willingness of Only one of the

In particular the results

top rated companies -Richard Branson's UK-based Virgin, is not a quoted company

many senior executives to vote for companies outside their

Italian and French executives tended to vote for international companies, suggesting a more pan-European focus. British and German executives were more inclined to vote for their domestic counterparts.

A wide range of companies qualified for accolades. The overall top 25 companies irreworld-class competitors from most industry sectors and

Nine of the top 25 are based in Britain, four each are Swiss, two are Belgian and two of the top five, Royal Dutch/ Shell and Unilever, are Anglo-

Only one of the top rated companies - Virgin, the UKbased airline and entertainment group run by Mr Richard Branson - is not a quoted company. Another, L'Oréal, the world's largest cosmetics group, is quoted but majority controlled by Mrs Liliane Betgroup's founder, how me, like British Telecom the UK-based global telecommunications group, have made the transition from government ownership to the private sector quite recentiv.

Forty per cent of the top 25,

including three financial stalwarts - Deutsche Bank Union Bank of Switzerland and Zurich Insurance - are in service sectors, but the top 25 also includes heavyweight industrial players such as Rolls-Royce, Bayerische Motoren Werke, GEC and Stemens. Sig-nificantly most of the top 25 companies also headed the lists for executives' most respected companies in their own sectors, often by a large margin For example, Royal Dutch/ Shell, Unilever and Roche were all clear winners in their

respective sectors. There were, however, surprises. For example, Reuters topped the media sector by a large margin, but did not appear in the top 25. Neither did Philipp Holzmann, which won the construction, homebuilding and building material group, or Muenchener Ruckversicherungs Gesellschaft which led the insurance

In general, respondents indicated the winning companies showed a commitment to their shareholders, customers, and

The most frequently cited qualities across all sectors were consistent growth and long-term profitability, clear business objectives and high customer loyalty.

At the other end of the scale. demonstrations of commitment to equal opportunities, progrescare and taking a strong position on social issues earned little praise. Perhaps more surprisingly investing heavily in research and development also came low down the scale of

respected qualities. Some cited characteristics stand out at country level. Customer loyalty was the most valued quality in the UK, but came lower down the scale of priorities for respondents from

tries. Growth and profitability was the most important attribute for respondents from Ger-many and France, and ranked second in the UK and Italy, but came eleventh in Spain.

A satisfied staff was rated the most important in the most other country lists. But it was not regarded as being particularly important in either

Training and development was rated as the third most important quality in Germany, but was only tenth for UK respondents. Providing staff with the resources to deliver high quality services and products was the top attribute in Italy, and fourth in the UK, but was less important in France and Germany

At sector level it was harder to draw firm conclusions. Nevertheless the survey produced some surprising and some pre-dictable results.

For example, it was predictable that customer loyalty was the most highly valued attribute in the retail sector and came first or second in construction, engineering and food processing industries. Customer service ranked as the most important or second most important attribute in the hanking chemicals, electronics and telecommunications.

However, although research joint top attribute in pharmacenticals it hardly received a mention in other sectors. The use of technology was the number one attribute for the media sector and ranked number three for telecommunications, but was lower ranked in other industries.

reduction was judged to be the most important factor for companies in the construction, electricity and water, and oil and gas sectors.

Significantly in those sectors Which are undergoing substantial regulatory change or technological development - for example electricity, water, and telecommunications - adapting to the needs of the 1990s

not have much time for mod-

ern management gurus. He is

more likely to turn for inspira-

tion in running his company to

one of his heroes, former US

Part of the reason could be

that Truman was a man after the spirited M&S chairman's

own heart: "He was feisty. He

Perhaps more importantly,

Sir Richard regards a passage in Truman's memoirs summar-

ising his thoughts on running

large organisations as one of

the best management texts

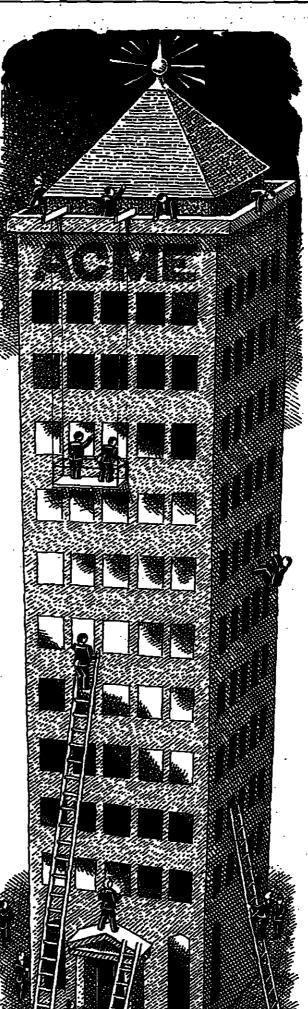
ever written. Truman, like Str

Richard, thought management was largely a matter of good

se. Running a country was

president Harry S Truman.

said what he thought."



Glen Peters on the key messages

Value added policies bring big benefits

companies in our survey and earns them the respect of their European peers is a commitment to their shareholders, customers and

The message which emerges is clear - if you can enhance value for each of these "stakeholder" groups you will earn a prize. But if you can use the principle of value enhancement to drive all your operational, investment, and finan-cial decisions then you will earn the glittering prize. Enhancing value for its

stakeholders is one principle that drives M&S. "Value for money" is delivered to the customer by a business strategy that creates the greatest cash recent "outstanding value" sales campaign exemplifies M&S's ability to meet the stakebolders: it raised turnover by 10 per cent, year-on-year, without an apparent reduction in margins.

Higher returns, lower risk and more rapid growth are used by Percy Barnevik and his team at ABB to create value for their stakeholders. Shareholders benefit from a continuous push into growth markets, a focus on reducing fixed costs and reductions in net debt.

Customers receive an unusually high level of customer service: and employees benefit sibility which is a hallmark of Barnevik's strategy.

M&S and ABB have distinc-

tive leadership and management styles which receive much praise from their peers. Their success highlights the message that delivering value to stakeholders is intrinsically linked to sound management. In ABB's case, this is a deci-

sive vote for the company's "mairly" management struc-tore, which allows Barnevik to manage a business with 200 000 employees from a head office of only 150 people. Top manement must not only allocate resources and resolve conflicts, but also create a common purpose, challenge the status quo and stimulate corporate renewal.

Elsewhere in the rankings, information technology has propelled Reuters into the most admired" category. Some 90 per cent of the group's revenue now comes from financial information and transaction products. Reuters' dominant position in the dealing rooms of the world's financial centres has been gained through aggressive acquisitions, strong market positioning, advanced products and buoyant cash generation. It is a recipe for gaining and retain-

he theme which ing the commitment of the unites the winning company's stakeholders.

Shell's positive attitude to its stakeholders has also received strong endorsement in the surstrengthened by strict debt control and commitment to targets of 14 per cent return on capital employed and and 12 per cent return on investment. British Airways' customer

service record helped make it the overall winner in the transport sector. BA is also committed to its employees; mechaemployee surveys give staff a say in how the business is run At Unilever, co-chairman Sir Michael Perry says shareholder value is high on his list of priorities. The group's strategy attacking the cost base, focusing corporate resources more tightly, and innovating in brands - earns it strong endorsement from its peers in the food and drinks sector.

Brands are also essential to BMW, which tops the automotive sector. Its brand image of high quality and high performance is a symbol of its commitment to its customers. Brand strategy will be the key to its relationship with newlyacquired Rover – the two brands will be kept distinct and will be developed indepen-

BMW may be a better-known brand, but Siemens is German industry's bellweather. Many of its divisions operate in depressed markets, and the growth rate of its biggest marthe initial stages of wiring up East Germany are completed. But the company has retains the admiration of its competitors in the electronics sector. In the banking sector Deutsche Bank is most respected by its peers for its overall business performance and market leadership. With over half its and with strong local subsidiaries in in Spain, the UK and Italy, Deutsche Bank must successfully address the interests of a wide-spread group of Euro 🔼 pean stakeholders.

The message of the survey is that the most successful top managements now judge their business decisions by the value that they create, and that they are judged in turn by their ability to deliver value to their

For those who wish to join the select ranks of Europe's most respected companies, the aspire to this list, you must identify the key factors that add value to your business, and make them work for you. Glen Peters is a partner with Consultants, where he heads the market and customer manage-

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Peter Martin outlines how the survey was conducted

637 companies judge their competitors

the largest companies in Europe. To do this, we started with the FT 500 list of Europe's 500 largest publicly quoted companies (measured by market capitalisation), then rched other databas add large privately-owned and To ensure that the exercise

was a true pan-European survey, we compared each country's number of companies with its share of European gdp. Where under-represented, we searched out and added more

The final list - 637 companies – strikes a balance between representing countries fairly and ensuring that all participants are large well-known companies.

The companies were then divided into industry sectors, starting with the classification used for the FT 500, but amending it to amalgamate some of the smaller sectors. The aim was to produce sectors in which all the members would see each other as competitors. In most, though not all, cases this aim

was achieved. Some companies are number of fields - this was found particularly in the and pharmaceuticals sectors. In this first year of the survey, it proved too complex a task to include companies in more

than one sector, although a small number of exceptions were made - in the chemicals. Dharmacenticals household sectors, where some duplicate listings were

Once the sectors were chosen, we wrote to the chairman, chief executive and finance director of each company, asking them to name their most respected competitors from the list we provided of companies in their sector. The letters and accompanying questionnaires were in the main European

The questionnaires asked executives to vote for their best (and, if they wished, the second-best) company/ competitor from the list, judged on seven factors of people, products and services business performance, leadership and management. strategy, and environmental

We encouraged them to indicate the qualities which contributed to these judgments. We also asked them to nominate the European company they most respected, regardless of

industry sector. To improve response, we significant players in a followed up with reminder letters and phone calls. At the end of the exercise, we were confident that the letters had reached the appropriate people, and that where no reply had been received it was because it was not company

policy to reply, or because, as one executive put it "I don't know enough about my competitors to answer". Once answers had been received, we entered them into a database and carried out a number of analyses, of which some of the results are shown

on these pages. A few industry sectors produced relatively poor responses, and were omitted from the detailed The selection of the two winning companies was based on their clear lead over their rivals in the overall voting, within their sectors, and on

each of the seven dimensions Though both companies won votes from outside their home countries, Marks and Spencer had particularly strong support in the UK. ABB attracted a diverse spread of

As the table shows, most of the top 25 companies were able to draw on substantial tross-border support.

The top 25 companies, almost all of them household names, are drawn from nearly every country in western Europe, and represent a wide rauge of industry, management styles, and approaches to business.

SURVEY TRAM Price Waterhouse: Simon Whicker, Brian Martin, Robert Sandry Financial Times: Paul Taylor,

Peter Martin, Angela

Bleasdale, Alan Wraight

little different from running any large body. Marks and Spencer has had a century to shape its philosophy and style. It has stayed close to its founders' principles. The company grew out of market stall in Leeds, northern England, set up in 1884 by a Polish-Jewish immigrant, Michael Marks. Ten years later Marks moved to Manchester

and went into partnership with a Yorkshireman, Tom Spencer. They founded a string of Marks and Spencer's "penny bazaars", with the slogan: "Don't ask the price, it's a From market stalls to shopping arcade stores, the business evolved into a chain of

offering clothing and The business was driven for-

department stores and later

into the familiar format

Three-P principles pull M&S through arks and Spencer's Michael Marks' son Simon and Israel Sieff in 1915. They ran the company as a chain of the company as a chain of stores until the 1960s and laid today's success.

One was a policy of acquiring freehold and long leasehold properties. Another was cutting out wholesalers and middlemen to buy goods in bulk direct from manufacturers. A third was an emphasis on quality and innovation As Simon Marks said in 1936:

Efficient distribution is not a static conception. It involves constant alertness and study of the changing habits, desires and tastes of the consumer." He might have had difficulty grasping the scale of the com-pany today. It has 354 stores, 72 of them in seven countries outside the UK, as well as owning Brooks Brothers in the US and Japan. Kings supermarkets in the US, and the D'Allaird's chain in Canada. It also has 76 franchise stores in 18 countries. M&S employs 62,000 people, and made profits last year of £851m on sales of £6.54hn.

The guiding philosophy has changed little from Marks' time. Sir Richard sums this up as "giving customers the best value for money - that is the price paid in relation to the [quality of] the good - and the best service.'

Sir Richard acknowledges his debt to his predecessors. He summarises the strengths of Marks and Spencer as "the three Ps' - people, property and product. M&S has a reputation for

taking on young people, training them, and keeping them. ward by a partnership between Sir Richard joined at 16 and



Sir Richard Greenbury: little time for management gurus

many of its senior executives are career-long employees. Staff are wrapped into a corporate welfare and benefits system which includes competitive pay, and a non-contributory pension scheme which costs the company £50m a

People, property and product have proved their worth over the decades for the British retailer

Sir Richard says M&S promotes young talent and attempts to nurture "mavericks and entrepreneurs'

One of the company's most valuable legacies is a property portfolio of which 93 per cent is freehold or long leasehold a great asset when many retailers are struggling to pay rent. The policy of buying freeholds continues today.

"Buy a prime freehold site and get the business right." says Sir Richard. "If you don't get it right, it's still a prime

it and kiss it goodbye." The third "P" - product quality - is inextricably linked to Marks and Spencer's rela-

tionship with its suppliers.

regarded by many as the most important feature setting it apart from its rivals. M&S was one of the first retailers, in 1935, to set up its own quality-control and research laboratories. It specifies stringent standards to its

suppliers, many of which it has been dealing with for decades.
At the same time, by buying early in large quantities, it can get very good prices. M&S has a reputation for being a tough negotiator; Sir Richard says it

is hard, but fair. Fairness, he adds, is another guiding principle. "If I was asked the two qualities that mean most to me. I would say

courage, not physical courage, and get on with things." The company's reputation

for integrity - exemplified by

its policy of paying suppliers within 20 days and food suppliers within 10 days - is one of the factors that has enabled it to expand into other areas such as financial services. As for courage to get on with things, M&S is planning a £1hn investment programme over the next three years to se its UK floorspace and

expand its overseas operations. Its main targets are France and Spain, south-east Asia where pilot stores have proved successful and, eventually, Japan and China. The page of expansion will

however, be measured and will be through organic growth and franchising, not through acquisition. Marks and Spencer has had less than happy experi-ences with acquisitions. Its acquisition of Brooks Bros in the US and Japan is regarded as a rare mistake. Many retail analysts believe M&S paid too much (\$750m) for a business which is yet to match the performance of the rest of the

As the business expands, Sir Richard another principle will guide his strategy. It is a principle he illustrates by reference to another of his passions football. "I used to love the Brazilians, and I still love my own team Manchester United because they have a belief that winning is very, very important...but if you win with a bit

Neil Buckley

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Zy.

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Trensport Becticity & Water Construction & Billionia Materials

Peter Martin on national views

Different keys to Eurovision theme songs

hat are the corporate qualities that Europe's business leaders most admire? The Financial Times/Price Waterhouse survey asked top managers to name the competitors they most respected on seven factors of business performance, and to list the qualities that contributed to this excel-

Their responses give a unique suspend of the qualities important to business success in the 1990s. Each category has its own surprises.

Companies best show they are focused upon their compa-nies for example, by demon-strating that their customers are loyal. At least, that is so for British managers. Their response is enough to take customer loyalty to the top of the ranking on this issue, overall and in those industry sectors in which British companies are strongly repre-

But managers from other countries placed less emphasis on customer loyalty: only in Sweden was the British view

Germany and Switzerland which was the top ranked quality in nearly half the industry sectors; France and the Netherlands went for good communications with customers. Managers in Italy put good use of technology at the top of their list of qualities, a view shared by the electricity,

media, oil and gas industries. There was less national polarisation on the second category: people. In France and the Netherlands, satisfied, loyal staff was most important; in Britain and Italy, this lagged behind giving people the means and facilities to

deliver results. In Germany training was the most important people fac-tor, a view shared by many industry sectors. But all respondents believed that progressive childcare policies and demonstrating "real" equal

opportunities mattered least.
The answers in the third category, which asked for the company with the best prod-ucts and services, produced one very surprising result. In almost every country, invest-ing heavily in R&D was seen as making little contribution to product excellence; quality also made little impact. The most important issue, in most countries, was meeting real

market needs. In Britain, perhaps reflecting industry's traditionperhaps ally concentrated structure, market leadership was seen as most important. This view was also shared in industries in which volume is critical (such as food processing and commercial banking).
Despite the negative attitude

to R&D, technology was not ignored: nisking innovative use of technology was seen as the most important product issue in Germany and Switzer-land, and it also scored well in

Unanimity reigned on the factors contributing to out-standing business performance. In almost every country and industry sector, consistent growth and long-term profitability was the long-term profitability was the best definition of performance. More unexpected, was the general view that being a low-cost producer was not a particularly important contributor to outstanding business performance.

Among industrial sectors, only cars and beverages put low costs as a high contribu-tory factor to business perfor-mance. Perhaps Europe's top mies are more vulnerable to low-cost competition

then they realise.

There was also clear agreement on qualities that make the most important contribution to leadership displaying a most tree management style. a positive man-Germany and the Nether-lands, perhaps reflecting the nisiness works in these two countries, gave equal weight to communicating the company's aims and making sure they were shared by everyone from the top down. Taking a strong position on

almost everywhere, What is the most important element in giving a company an effective strategy? As in the leadership category, clear polley and objectives came top in almost every country and industry; responding to the market needs of the 1990s

social issues came bottom,

came next. There was much emphasis on seizing opportunities in the emerging European market. But, perhaps worryingly, the rest of the world seemed less important. Only British managers seemed to care about doing business on several continents, though a handful of industries across national boundaries from insurance to engineering shared the view.

Only in Raly (and in the oil and gas sectior) were managers expected to have knowledge of international markets. There was little enthusiasm for the seventh category, in which managers were asked to nominate the company which cared most about the environ-

ment, However, a clear trend was evident; managers think of good environmental behaviour primarily in terms of production processes, not packaging or product design.
Thus, investing in pollution

control measures came top in most countries, while reflecting environmental policy in products, packaging and the like came bottom.

Some kind of misunderstanding...

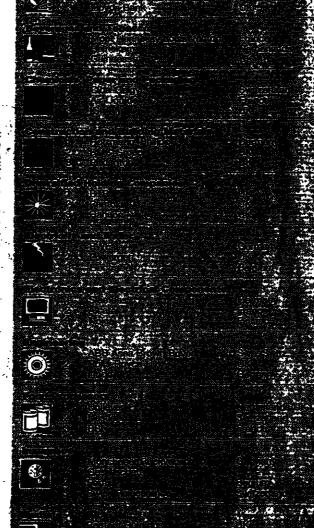
Surprisingly few companies actually declined to take part in the survey. There were, however, one or two surprises, writes Paul Taylor. For example, the chairman of one large British building

materials group said he could not complete the question. naire because he did not know enough about his competitors across Europe.

Meanwhile, the chief execu-Meanwhile, the chief executive of another British-based tive of another British-based company said it was group company said it was group policy not to take part in policy not to take

The highest response rates of up to 50 per cent came in the beverages & tobacco and automobiles/auto tracks & parts categories. But response rates in the steel & metals processing and house. hold, textiles & clothing sectors only made it into the

In addition, with almost



Paul Taylor takes a look at some of the results by sector

Benchmark is set by clear winners in product groups

hen Europe's senior asked to nominate the most respected companies in their industries on the basis of seven measures of business performance, clear winners emerged in most business sec-

As a result the first Financial Times/Price Waterhouse survey should provide a valuable tool for corporate executives and others wishing to benchmark their companies against the best in Europe. This is a summary of the

some of the results by sector. Automobiles/Auto Trucks

& Parts Bayerische Motoren Werke, the German carmaker came top in this sector which had a particularly high response rate. BMW was followed by Robert Bosch, the German components manufacturer, and then

motor group. Although Deutsche Bank no longer ranks as Europe's biggest bank - that title is now held by HSBC following its takeover of Midland Bank the German bank emerged well ahead of its rivals in a large

Peugeot Citroen, the French

with Germany's BHF-Bank, behind UBS, Lloyds Bank and Spain's Banco de Santander.

 Beverages & Tobacco In this sector the only two non-British contenders, LVMH Louis Vuitton Moet Hennessy, the French luxury goods group, and Heineken, the Dutch brewer which has a sub stantial international reach, topped the rankings.

However, Guinness and Whitbread were well placed and Grand Met scored well.

Chemical, Paper & Packag-

ing Ciba-Geigy, of Switzerland, which also has substantial pharmaceuticals interests, took first place in this sector even though L'Air Liquide, the world's biggest industrial gases group, made it into the top 25 list. Ciba did well mostly because of its customer focus, products and financial perfor-

However, unlike many other sectors, votes were very evenly spread across the industry. Reasons for selecting companies

Most & Least Important Qualities Enjoys high customer loyalty Makes good use of technology Most Important: in its customer services Most Important: Least Important:

Most Important Least Important is a low-cost producer

Most Important style and attractive behaviour Takes a strong position on acclai issues Least Important

Most Important Clear policy and objective Least Important Focusing on revenue growth rather than cost reduction

Most Important Invests in poliution reduction me Least Important Policy shows in products and packaging Source: Financial Times/Price Waterfiotise

"If Air Liquide came second, fol-transport and communications lowed closely by ICI, of the UK; group, and Pinault, which Akzay of the Netherlands, and growns the Printemps stores also DIFFISHE ranked fifth equal sanderPaulenc, the French tunade the top five. chemicals group. • Electricity & Water

• Construction, Homebuilding & Building materials German and British companies shared the top honours in this sector. Philipp Holzmann emerged with most votes by a clear majority, followed by Britain's RMC Group, the ducer, and Pilkington, the UK

glassmaker. Dykerhoff, the German cement group which recently acquired a 50.05 per cent stake in Ciments Luxembourgeois, and Wolseley, the UK-based heating and plumbing merchant, also made it into the sector top five.

 Diversified Holding Com-This was one of the most difficult categories to rank because of the wide range of

business activities covered Nevertheless BTR, the British industrial conglomerate, emerged as clear winner, closely followed by UK-based Rentokil and Hanson. Chargeurs, the French textiles

Germany's largest utility group, RWE, led the electricity and water field, closely followed by Britain's Powergen and then Belgium's Electrabel, National Grid and Sweden's Vattenfall utility. Components

Siemens came top by a wide margin, followed by Alcatel-Alsthom, of France, Finland's Nokia, Sweden's Electrolux, Britain's GEC and then Philips of the Netherlands.

 Engineering Although ABB Asea Brown Boveri dominated this sector, Britain's Rolls-Royce and Linde, the German lift truck maker also rated highly. The top three were followed

by Sandvik of Sweden and Williams Holdings of the UK. Food Processors Unilever and Switzerland's

Nestlé group headed this sec-

the top 25. But in the sector it ranked third behind its arch ulcer drug competitor Sweden's Astra. SmithKline Beecham ranked fourth.

> and John Lewis took second and third places respectively after Marks & Spencer. Migros, Switzerland's leading food retailer, came fourth followed by the French-owned

British companies, J Sainsbury

tor. They ranked fifth and sixth in the overall winners

They were followed by BSN

the French-based multinational

food group, Barilla, Italy's family owned pasta and biscult

group, was ranked number

Germany's Muechener Ruck-

versicherungs group won the most praise in this category followed by Fortis, the Dutch/

Belgium group, Swiss Reinser

ance, Zurich Insurance and

Allianz, Europe's biggest insur

Media, Printing & Adver-

Reuters Holdings, the new and

financial information group,

stood head-and-shoulders

above its rivals in this cate-

gory receiving as many com-

companies put together.

publishing group.

mendations as the next five

Reed-Elsevier, the Anglo-

Dutch publishing group, came second, followed by the Ger-

man Bertelsmann media

group, Britain's EMAP and

Wolters Kluwer, the Dutch

• Pharmaceuticals & Health-

Switzerland's Roche claimed

Surprisingly however, Roche did not figure in the 25 overall

winners. Glaxo, made it into

the top slot in this sections

four in the sector

group.

tising

Carrefour group. Telecoms & Communica-

British Telecom emerged as the top-rated company, fol-lowed by PTT Nederland, the partially privatised Dutch telecommunications and postal company, and Vodafone, the UK cellular network opera-

France Telecom, ranked number four followed by Cable & Wireless which owns the Mercury network in the UK.

Ian Rodger explains how ABB has grown into the largest power engineering group in the world

The inside story of a model multinational

Swedish-Swiss international engineering group, being cited as the model multinational industrial enterprise of our

age.
Management consultants, economists and social scientists swarm around it, studying it, testing their hypotheses and it, testing their hypotheses and searching for clues to emerging trends in company development. Journalists besiege if for interviews, knowing that any thing ABB says will be read eagerly throughout the world.

In many respects ABB is the model multipational it open the says will be read eagerly throughout the world.

In many respects ABB is the model multipational it open the says will be read eagerly throughout the world.

In many respects ABB is the many respects ABB is the fight from every major centre in Surge and with efficient ates in 140 countries and car access to every continent, ries out one product develop manufacturing, in at least a material thinking.

ABB season formed in January dozen countries its countries are access formed in January dozen countries. Its countries are access to every continent, and top management are access to every continent.

ABB season formed in January dozen countries its countries are access to every continent.

ABB season formed in January dozen countries its eventual are successively international.

wrote in the FT about the need to build multinational teams for a global company, "As business gets more globalised, the competitive advantages of multinational teams increase. Any

ardly a week goes by language. English was chosen an international reputation at without ABB Asea at the outset, although a Asea, as chief executive.

Brown Boveri, the minority of the present 218,000 Mr Barnevik recently divided employees have English as their mother language.

Today, all executives use
English as their common language and ABB's currency for global reporting and consolida-

tion is the US dollar. Most importantly, from the very beginning ABB established a

increasingly international engineering and robotics
Earlier this year Mr Percy, group, and Brown Boveri, the
Barnevik, chief executive. Swiss power engineering and rallway equipment makers.

The main shareholders of both groups recognised that

moves to privatisation and deregulation in many countries would mean an international restructuring of their main businesses was inevitable. Only the biggest and strongest would survive the shakeout and Asea and Brown Boveri recognised they had lit-

tle chance alone. Together

their chances would be greatly

enhanced, with Mr Barnevik, who had already established

Mr Barnevik recently divided the development of ABB to date into two phases. The first, from 1987 to 1990, he said, was dominated by acquisitions to give the group critical scale in the biggest markets while taking out excess capacity.

By far the most important

were the 1989 acquisition of the power transmission and distri-bution operations of Westinghouse Electric and the takeover of Combustion Engineering. Through these operations,

the group acquired a US base with sales of \$5hn and a competitive nuclear power generation technology. Since 1991, the group has

been in a consolidation phase, although acquisitions have continued to figure prominently, with a special emphasis on central and eastern European countries. Also, a new business development thrust in the fast growing Asian countries was launched.

Overail group employment has stabilised at just above 200,000, although this has been the net result of massive acqui-sitions offset by redundancies averaging 1,000 people a month last year.

This and an annual turnover of \$28.3bn last year makes ABB the largest power engineering group in the world, and one of the most widely spread. A little over half of 1993 group reve-



Percy Barnevik: eliminated intermediate layers of control

nues came from western Europe, nearly a quarter from Asia and a fifth from the Americas.

Profits, after doubling in the two years following the merger, stagnated at the beginning of the 1990s, last year reaching \$1.19bn before taxes and extraordinary items. However, through rationalisation, ABB has managed to turn a \$2.1bn net debt at the end of 1990 into a \$242m net liquid position at the end of last year.

Mr Barnevik's initial management approach was to push down operating responsibility to the operating units and eliminate intermediate layers of control. In doing so, the group created some 5,000 profit centres. Executive board members carried both divisional and regional responsibilities in the now conventional matrix structure.

However, last year he modified this structure significantly, reducing the number of

divisions, or segments as ABB calls them, from seven to five and undoing the matrix at executive board level. The idea, he said, was to

improve the group's ability to to customer demands for large, complex system projects. Although still a young

group, ABB has already developed a unique corporate cul-ture, where nationality no longer determines an employee's prospects.

The one glaring deficiency in the structure is its capital.

ABB is still owned entirely by Asea and BBC. While both the Asea and BBC shares are quoted and are much more widely held than they used to be, group executives believe that its credibility as a multinational would be greatly enhanced by a conversion of these into ABB shares.

There are significant technical and legal difficulties in achieving this, largely because there is no ideal jurisdiction in which to base a multinational entity like ABB, and the dominant Swedish and Swiss shareholders of Asea and BBC do not want to lose their influ-

But Mr Barnevik believes it will happen in the next few years, a period he calls the "the expansion phase". This phase seems to have got under way in the first quarter of this year, with a 20 per cent surge in pre-tax profits to \$246m.

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FINANCIAL TIMES

Media legislation 'may be postponed'

The Michille William

Newspaper publishers' ambitions to take over British broadcasters may have to be postponed because a growing parliamentary logiam is threatening serious delays to the required leg-

Britain's National Heritage minis-ters fear there may not be time in the 1994-95 legislative calendar for primary legislation on the media.

That would mean reforms to allow "cross-media" ownership might be delayed until 1996 at the earliest, along with legislation on a range of issues vital to the future of British

By Ian Hamilton Fazey,

Northern Correspondent

The ports of Rotterdam in the

Netherlands and the Humber

in northern England are to

jointly promote their growing

shipping links to try to divert

more trade from the UK and

sentations to manufacturers

and distribution companies

will be held tomorrow in Wake-

The ports used to promote

separately but started talking

last year about trying to make

Humber-Rotterdam the princi-

pal trade route between Britain

Although the ports compete

for deep-sea traffic they believe

there is scope to co-operate on roadborne freight needing

North Sea passage. The Humber is Britain's

busiest estuary. It carried 60m

tonnes of cargo last year - sur-

passing the Thames for the

first time, with about 40,000

shipping movements. Its main

ports of Hull, Immingham,

Goole and Grimsby are supple-

mented by 10 river wharves

and about 100 other berths. It

accounts for 17 per cent of the UK's seaborne trade and this

share is expected to rise to 25

per cent in six years. Humber

cent in the last 10 years.

and the European mainland.

field, West Yorkshire.

The first of a series of pre-

other European competitors.

controversial aspects of the 1990 Broadcasting Act.

A delay to legislation would be a severe blow to Channel 4 in its cainpaign to reduce its payments to ITV companies by £50m a year.

It would also be a setback to media groups such as Rupert Murdech's News International which is thought to have ambitions to enter British broadcasting.

The Labour opposition may seek to exploit the government's difficulties by contrasting the delay in the UK with the wide-ranging plans of the

tunnel has spurred co-opera-

berside authorities say that the

tunnel will have little impact

on their operations because it will initially handle only about

am tonnes of freight: This com-

pares with about 15m tonnes of

container traffic through the

Humber and 60m tonnes inrough Rotterdam tonnes inrough Rotterdam the market where the tunnel is hoping to compete. The Humberside Partnership a joint venture of local public and private sectors is emphasising British's London

emphasising Britain's London transportation bottleneck and

the convenience of Humber-

Rotterdam der roadborne freight to and from Europe for

Both Rotterdam and Hum-

media and information industries. The information industries have been identified as an important growth area for the future of British

Legislative proposals on key issues ranging from the future of Channel 5 and plans for digital television to white papers on the future of the BRC and the press and privacy, are already considerably delayed.

Whitehall departments have just lodged their bids for legislative slots and the outlines of the Queen's Speech – to be delivered in the autumn - are expected to be decided by the end of this month or early

next. National Heritage ministers fear the legislative timetable will be dominated by issues such as the privatisation of the railways and the Post

An interdepartmental committee on cross-media ownership is due to complete its work this summer. It is likely to recommend a relaxation of the rules that prevent publishers owningmore than 20 per cent of broadcasting companies and vice versa.

Primary legislation would be needed for anything other than a small increase in the permissible

The cross-media ownership rules

tion of ITV ownership regulations. Last year's change in the rules to allow one company to own two ITV licences, except in London, was seen as an interim step.

A legal framework for digital radio and digital terrestrial television would also be held up.

The plan to unite the regulators, the Broadcasting Complaints Commission and the Broadcasting Standards Council would also have to wait. However the renewal of the BBC's Royal Charter, which runs out at the end of 1996, appears unlikely to be

Vandalism probe after derailment

Police were investigating the possibility of vandalism yesterday after two people were killed and four injured when a passenger train was derailed at Greenock in Scotland late on Saturday night.

The dead were believed to be the driver and a passenger on the service from Wemyss Bay on the Civde coast to Glasgow. Four other passengers were treated at Inverciyde Royal Hospital, Gourock, and later discharged.

A police spokeswoman said: "As far as we are concerned there was debris on the track. The first carriage was extensively damaged. We can't rule out vandalism."

The train hit an overhead bridge at Drumfrocker Street. ripping the sides off the lead-ing unit.

Publisher to

plans to publish 30 new magazines next month, the largest number of titles launched by a single publisher Mr Rex Chester, a farmer in the UK. The consortium, called Retail

Revolution, will distribute the titles through TPS, a Windsor-based newspaper and imagazine distribution group which will deliver the products to an initial 4,500 UK petrol

Britain in brief Retail Revolution's largest

Economic

as steady

stronger commercial

growth seen

Steady economic growth in

the next few years, driven by

Cambridge Econometrics, an

economic consultancy, in its

latest set of forecasts issued

announced last year. Export growth will be fairly high as

a result of general economic expansion across much of the

Cambridge Econometrics

expects gross domestic product

to increase 2.8 per cent this year, stabilising at 2.5 per cent

growth will average 4 per cent

a veer between this year and

spending will slow by the end of this year as the tax

in 1995 and 1996. Investm

The consultancy says

inflationary pressures will

increase as the economy expands, with the retail prices

index increasing 4.4 per cent

Stronger economic activity

should lead to a decline in the

expected to fall from 4.5 per

this year to 3 per cent next

cent of gross domestic product

next year after 2.9 per cent

government's borrowing

requirement, which is

remain restrained partly

because of the tax rises

ieveloped world.

1996, while consum

increases hite.

this year.

ment, is envisaged by



magazine for garage owners. The company also owns Overdrive and Dial, the fuel credit cards businesses, which will provide the accounting software for Retail Revolution.

Executives spurn perks

Most British executives value salary increases far more than says a survey by a leading recruitment company. Responses from 146 job

applicants canvassed in a survey of recruitment trends carried out by KPMG Search and Selection, a recruitment services company, found that 63 per cent of them said they would prefer to have the equivalent increase in salary instead of some or all of the perks on offer. Benefits considered most

important were non-contributory pensions, company cars and healthcare. Those thought least important were longer holidays.

National Power deals approved

The European Commission's competition directorate has approved contracts between National Power, the electricity generator, and private UK coal producers in spite of complaints that they wer

discriminatory. It had earlier said in a preliminary finding that the generator was not justified in paying significantly lower prices to private companies than to British Coal

Amoco site launch 30 titles tor expansion An international consortium

Amoco, the US oil company, plans to spend £80m to expand its natural gas terminal at Seal Sands in Teesside in a project which will link the facility with British Ges's

The Teesside terminal is the destination of the 255-mile Cats pipeline which runs through the central North Sea, and through which the Armada gas will be sent.

Rotterdam and **Humber ports** in trade drive UK's motorway network, which puts 40m people - most of Britain north of London and the south-east - within a day's return lorry drive. Rotterdam , handles 300m tonnes of cargo a year and offers direct links into European markets of 320m people within 24 hours drive. The adverse of the Channel

Emergency workers at the scene of the weekend derailment in which two people died Return Roser

Support grows for 'green' farming

British government funds for "sustainable farming" have been trebled to £12m to try to reduce the use of agrochemicals and fertilisers. industry is providing a fur-ther £12m for a scheme which

Scotland, northern England, the Midlands and Ireland. ther film for a scheme wings, is backed by Mrs Gillian Shep is backed by Mrs Gillian Shep is hard. UK agriculture ministences she said Farming needs to find ways at feducing its use of scarce resources. Both to save the farmer negative ensembles. Rotterdam Port Promotion Council, the partnership's Netherlands edifficient, says the ports can offic considerable economic benefits to businesses.

Business Travel Desk

plant and bird life and protect the rural environment and the welfare of animals.*

Sustainable farming is becoming a buzzword in agriculture. The concept has grown out of pressure from the "green" lobby to halt spiralling

Sustainable methods involve farmers cutting the use of chemicals wille maintaining research initiative is simed at showing farmers how to control up the use of artificial fertilisers; and chemicals by soil when spreading manure.

turning to organic production. Projects backed by a government scheme to introduce sustainable methods show how use of weedkillers can be cut by using spraying machines that recognise weeds.

Some of the projects show how producers can encourage natural predators to eat harmful crop pests. Another research initiative is aimed at showing farmers how to con-trol nitrogen leathing into the

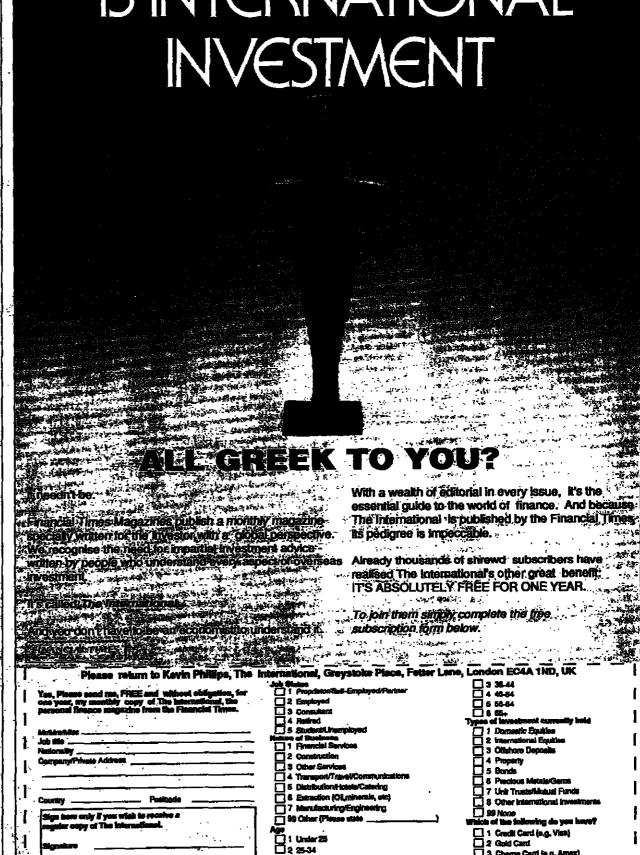
The scheme has attracted growing interest from producers since it was set up two

who chairs the manage committee for the projects said: "Farmers need to respond to the growing public concern for wildlife and the environment but he said. We can't compete with people windstands eating meat is a sin. At the extreme end, the demands

become irratignal." SINTERNATIONAL

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Do. 896 Cps, Pt. 1.05p
Blue Circle 7.5p
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May Asset Wales 59K R AL Db. 197-99 \$24.3375

Do. 12WM Rd. Db. 1955 \$2.375

Do. 12WM Rd. Db. 1955 \$2.375

Marcharet Water 49K Perp Do 22.00

Do. 11% Rg. Db. 2012/16 \$5.50

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Do. 11% Rg. Db. 2014 \$2.75

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Do. (110H 30.5p

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Marry Nor Tet 482 Db 2014 \$2.75

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Marry Nor Tet 4.25% Con PT 2.125p

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Do. Units 30.5p

Placet Structured Retailing 4% Pags. Conp. Db. 22.00

Placetail Fore Loaring SAcc. Fish 1805 \$7.57

New Burstwick Rahlung 4% Pags. Conp. Db. 22.00

Placetail Fore Loaring SAcc. Fish 1805 \$7.57

New Burstwick Rahlung 4% Pags. Conp. Db. 22.00

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UK COMPANIES

BOARD MEETINGS: Finde: Business Post Clayhibte Howetton Hogg Robinson Lister Norweb

Sun inst., 200 Aldersonte Street, E.C.,

Security A. Cell day 11.179 LID 197/102 COLD Sendolo, 17.18p Sandolo, CV., Rd., Pf. 3.128p Empire Stores WHH Db. 194/29 CA.825 Estates & Agency 31/25 Rd Pf 1.73p Db. 11WK 11 kt Mg Db 2020 SS-925 Estates & General 11.25% 1et Mg, Db. 2018

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COMPANY MEETINGS: Abbott Meed Victors, The Lanesbor 1 Lanesborough Place, S.W., 11.00 Address, Coropagn Index Issuestraes Of Chalesborne, Street E.

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BOARD MEETINGS: Finals:

Finalië Health (B)

CONFERENCES

This program both statyses the LLC norm of business, regarders and sector factors for business organization and places it in an supervision, capital adequacy, new product international context. Speakers are from except and the United States, London lancheou speaker is G.B.A. Kentfield, Chief Cashier, Baak of England on Rich Systems, David Mullins Keynoses. Guidance Notes for Investment Be Money Leundering. Contact: Smith & Partners Contact: Smile of Papers
Tel: 071-487 4444 Pax: 071 487 4480
LONDON/MONACO

JULY 4 NAVIGATING THE INFORMATION SUPERHIGHWAY Media convergence and your

marketing strategy This conference will examine the policy implications, the battle for control and the exchanges, regulators, market practitioners anguithrance for marketing and advertising and lavestors to debate the evolution and Are you ready to interact with the Contact Nick Jones, Marketing Week Wanted

Tel: 071 434 3711 Fax: 071 287 8706

JULY 4 & 14

STRATEGIC PROCUREMENT IN THE 1990s: Concepts & Cases The limited workshops designed to explore leading edge thinking about Strategic Procurement. Each event will combine the work of sensor practitioners and leading acidemics to max fundamental concepts with term. practice. They are intended to act as depa Contact: The Contracts & Procurement Research Unit, University of Birmingham Tel: 621 414 3221 Fac. 621 414 3217 BATH/BURMINGHAM

JULY 5/6 INTRODUCTION TO FOREIGN EXCHANGE AND MONEY MARKETS

Highly participative training course triggity participative training coerse covering moldlonal FX and money multipas featuring WINDEAL a realistic PC based dealing simulation. For Corporate treasurers, bank dealors, marketing executives, financial controllers, systems and support personnel. £480 + VAT. Lywood David Interactional Ltd. Tel: 0959 565820 Fax: 0959 565821

LONDON EDUCATION, TRAINING AND PERSONNEL DEVELOPMENT

HALL 6, NEC Britain's promier professional training event, catering for all your training needs. Free entrance, free catalogue, free paricing. Trade only. Tuesday. 5th. Wednesday, 6th July - 10:00 - 17:00, Thursday, 7th July - 10:00 - 16:00

BIRMINGRAM JULY 13 CONSTRUCTION SAFETY REGULATIONS Half-day CBI sensions, with expert speakers from Government and industry, provides line-managers responsible for health and safety with information and guidance on क्रफ पूर्व करूप विद्वा Contact: Georgina Kingaby, CBI Tel: 071 379 7400 Fax: 071 497 3646

SECOND CITY OF LONDON

Risk Systems. David Mullins Keyentes. Details from: Cityforum Ltd Tel: 0225 466744 Fax: 0225 442903

JULY 6 & 7 FT INTERNATIONAL EQUITY MARKETS Arranged by the FT and the Centre for the Study of Financial Innovation. The aim is to provide a high-level forum for stock

Enquiries: Financial Times Tel: 081 673 9000 Fax: 071 673 1335

LONDON UK ECONOMIC PROSPECTS CRI conference, in association with Dow Jones Telerate, for finance directors and

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THE OWNERSHIP OF REAL-TIME DATA IN THE FINANCAL MARKETS

considerations underlying the use of financial electronic trading data. Who owns the data? Who should be paying for what, when and how much? Is copyright applicable? Speakers from exch weadors, solicitors and end-users. nel Conference Group TeL: 081 743 8787

LONDON JULY 11

KAZAKHSTAN CRI/International Tax & Investment Centre Conference provides comprehensive programmo, including Senior Ministers and edy case studies, on custost eco Contact: Nicole Mertin, CEI Confere

Tel: 071 379 7400 Fax: 071 497 3646 LONDON EFFECTIVE UTILITY REGULATION

The Accounting Requirements CRI/ICAEW Setnings addresses the basis on which financial information should be collected and whether the information is sufficient for regulatory decision making. Speakers include Sir Bryan Camberg, Office of Fair Trading and Professor John Kay, Contact: Leigh Syles, CRT Tel: 071 895 8823 Face 071 895 8825

SAUDI ARABIA from a wide range of disciplines to examine trade, investment and services opportunities. Speakers include Douglas Hogg and Contact: Nicola Martin, CBI Confert

Tel: 071 379 7400 Fax: 071 497 3646

LONDON JULY 21 PRIVATISATION - MAINTAINING THE MOMENTUM

Organised by the Centre for Policy Studies. exemining the privatisation. record so far, future privatisation opportunities in the UK & Europe, regulatory systems and foreign artunities for UK advisors and investors. Speakers include Michael Heseltine & Stephen Dorrell, Sponsored by Contact: Ocnach Goodman.

front Conference Co Tel: 071 730 0410 Fax: 071 730 0460 LONDON

SEPTEMBER 14 & 15 FT NUCLEAR INDUSTRY This high-level forom will examine the outlook for nuclear power in North erica and Western Butope, asse the impact of current government monatoria and review growth potential in the Asian-Pacific region.

Enquiries: Fluencial Times Tel: 081 673 9000 Page 081 673 1335 LONDON

SEPTEMBER 21 & 22 FT RETAILING TOWARDS 2000 This meeting will debute the opport es facing the retail ladustry, considering both current insues and future Enouiries: Floancial Times Tel: 081 673 9000 Fax: 081 673 1335

LONDON

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PROFIT RELATED PAY This conference examines the practica aspects of introducing, implementing and designing a successful profe-related scheme. Topics include a review of whether PRP is right for a company, the design process, copioyment law issues and a practical analysis by Severn Trent PLC. Contact: Evic Kinane, IBC Legal Studies Tel: 071 637 4383 Feb: 071 631 3214

SEPTEMBER 22 ELEMENTS OF REGULATION As introductory course covering regulation issues in the utilities and other sectors sad demanda no prior knowledge. Topics include: reasons for regulation; evaluation; strategies; enforcement; price controls, cost of capital; asset valuation; quality Porther details are available from: Short Counted Office, LSE -

Tel: 071 955 7227 or fac: 071 955 7676

SEPTEMBER 27 CIVIL JUSTICE ON TRIAL day event has a prestigious panel of The Rt Hon Lord Woolf of Berner Rodger Pannona, Derek Wheatley QC Hilary Hallbron QC For details contact Professional Conferences Ltd.

BOARD MEETINGS: Finals:

Tel: 071 233 7733 LONDON OCTOBER 11 EXTRACTING CASH FROM THE UNQUOTED COMPANY this timely conference will give expert guidance on methods of company valuation, florations, trade sales and the company buying its own shares. The speakers will analyse the complex legal and tax implications, the latest techniques and

Contact: Kate Roberts, IBC Legal Studies Tel: 071 637 4383 Fax: 071 631 3214 CLASCOW OCTOBER 20 USING THE YELLOW BOOK IN A WIDER CONTEXT: An Advanced Guide to the Listing Rules and

related Legislation How LSE works in practice; listing particulars; releasing and disclosing information; financial reporting; model code; spousors; role of broker; day in life of Company Secretary, CPD 5.5 legals. Contact: Kay Dickinson, IBC Tel: 071 637 4383 Faz 071 631 3214

INTERNATIONAL

JULY 5 CROSS-BORDER TAX & FINANCIAL ISSUES FOR INT'L BANKS & SECURITY HOUSES es: Derivativ transactions; Transfer Pricing issues/Dading Activities, Advance Pricing Agreements for Int'l Banks. A panel of U.S. & European speakers including former director of APA program, IRS and representatives of OECD, French & U.K.

Contact: The Assertions The fereinste in Basope Tel: +44 825 760 901 Proc: +44 825 760 903 PARIS SEPTEMBER 27-29

DA/DSM EUROPE 94 Competition in combination with open socres will force stillines to introduce more advanced technologies such as: IT/DA/DSM/SCADA/AM/FM/GIS/AMR At this conference & exhibition the latest developments will be discussed and shown by the major companies and utilities, High Contact: PendWell C&E

PARIS

Phone: *31-30-650.963 Fax*31-30-650.928 SEPTEMBER 29 & 30 FT INTERNATIONAL BANKING

debate the outlook for banking in the unid-1990s and address a wide range of issues : Pinancial Time Tel: 081 673 9000 Fax: 081 673 1335

The conference will provide a forum to

CONTRACTS & TENDERS

SUPPLY OF TELEPHONE SETS FOR HTC Pregualification Notice to Prospective Suppliers

The Hungarian Telecommunications Co. Ltd. is to issue a tender for limited competition of potential suppliers for the delivery of telephone set families required in the coming two years. The telephone set family will consist of basic set, premium set and comfort set. Besides the telephone set family the bidders can submit offers for answering sets separately. Two suppliers will be selected from among the qualified bidders invited by HTC to participate in a tender planned to be issued in the near future.

After a preliminary selection the best evaluated bidders of the forthcoming limited competition will be requested to submit their sample telephone sets for examination and testing by HTC. As a result of the detailed evaluation two winner suppliers will have the right to delivery the required telephone sets for a period of two years in the frame of a limited annual competition. The best evaluated bidder will supply approximately 60-70 per cent while the second best evaluated bidder will supply approximately 30-40 per cent of the required quantities in the first year. The two suppliers will compete again for the supply of the quantities required for the second year.

The tender will be issued for the following quantities by telephone set categories:

The telephone set family: Telephonene catagories with principal and the PC - 240,000 BASIC SET (AGC, pulse/fone mode - 240,000 thy per annua in PCs flash, adjustable ringer volume) 95,000 390,000 PREMIUM SET (re-dial, memory for 10 numbers, pulse/tone conversion) COMFORT SET (LCD, speaker mode, memory for 20 numbers, hold, mute)

Only those bidders are allowed to participate in this pre-qualification who cover all the above listed categories with their telephone set family of identical design, components and units.

Telephone self-enteger

ANSSTRUCTOR SELF-orthogram

ANSSTR The evaluation for the answering sets will be done separately.

The telephone sets will be ordered quarterly. HTC will be allowed to adjust the above indicated quantities up to plus-minus 20 per

Telephone set manufacturers who wish to be considered for prequalification for the above explained tender are invited to submit a capability statement containing:

Minimum annual turnover: an equivalent of 6 million USD at least 20 Company profile including type and size of the per cent of which is earned from the manufacture and sales of telephone sets. company, and financial statements for the last 3 years. Merchandising of at least 50,000 pcs of telephone sets as an annual Reference list, letter of previous average during the last 3 years. customers attached. At least 1 authority. List of telecommunications authorities which have approved the offered telephone sets. Up-to-date construction principles aesthetic and homogeneous design Technical brochures with colour photos and main features of the telephone set family the whole telephone set family

Prequalification materials shall be sent, by July 22nd, 1994 to the following address:

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In fact, you could hear a pin drop, if it weren't for the deep pile carpet.

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The system produces 180 watts maximum power. (Well, there is a lot of silence to fill.) And, as if it isn't already a system to make even audiophiles question their domestic listening arrangements, it can be upgraded further. With a remote six-disc CD auto-changer.

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Drivinga Lexus LS400 improves your hearing



In search of wages that work

A more subdued and realistic approach to reward management is emerging as new pay systems prove more complex than predicted, writes David Goodhart

ritish companies continue to be obsessed with their pay systems. No fewer than one quarter of all companies structures during the past year, according to a recent survey of 1,000 companies. Many large companies are settling into their third-generation performance-related model since the early 1980s, with bonus schemes and share options for senior executives in a bewildering state of permanent revolution.

Yet there is a more subdued and realistic mood among the high priests of reward management than n the heady days of the 1980s. The belief that a company's success depends primarily on adopting state-of-the-art pay systems is now regarded as naive. Motivation is a complex thing, and designing pay systems is fraught with difficulty.

The most ardent supporters of performance-related pay recognise that it is extraordinarily difficult to manage well," says Vicky Wright, a director of Hay Management Con-

Counted among learning experiences is a clearing bank which

based the pay of branch managers on the branch performance only to discover that cross-referrals to other parts of the bank - such as investment management - dried up because they were not included in the performance targets.

Recent evidence of inappropriate insurance policies sold by commission-hungry staff is another reminder of the hazards of narrowly drawn, individualistic reward

But is the new realism in reward management delivering useful incremental reform? It has been doing so for some time in performance-related pay, where the tension between individual performance and group commitment is being grappled with. So is the sensitive link between performance pay and appraisal reviews, with assessment by colleagues and other such innovations being tried.

Some companies are even recog nising that the reason they want performance pay is not to distinguish between the good and the adequate but to stop giving pay rises to the inadequate. Useful advances are also being made in skill-based pay and in "gain-shar-

ing", incentive pay schemes that return the value of specific improvements to the employees responsible. In the more sensitive field of executive pay, and especially share options, many financial institutions have made clear that they want more rigour, but as yet there is little to show for it.

Herein lies the unresolved tension at the heart of the pay revolution of the past decade. Central to that revolution has been the tearing down of national going rates for workers, and complex grading systems for managers that rewarded inertia and length of service as much as performance. In their place the "internal labour market" has grown in impor-tance, based on the premise that employers should seek the loyalty of employees by rewarding them according to individual performance and company performance.

To the apostles of reform in the 1980s the rise of the internal labour market was not just about improving incentives but about transcending the historic divide between labour and capital. With more variable pay, it was argued, the wages bill rather than the number of employees would move up and



down with the business cycle, allowing for a more stable, committed employer-employee relationship, Similarly, profit-related pay and share ownership would spread risksharing among all employees and even between employees and owners. Company performance might be an unpredictable thing but at least everyone would be affected in a

similar way.

The trouble is that progress towards the high commitment company has been linked to a large increase in income inequality within the company. Loosening the ties with national bargaining systems has handed more power to groups at the top of companies who have helped themselves to a larger share of the cake and undermined the belief that everyone is in the same boat.

The most outrageous pay rises for top executives, running into tens of millions of pounds, have been the exception. But, according to Robin Harrison of pay analysts incomes Data Services, gross pay for chief executives has risen on average nearly 600 per cent since 1979, while average earnings rose by half that

This appears to be more than a one off change in differentials for top executives, whose pay was badly squeezed in the 1960s and 1970s. A typical story in last Monday's Financial Times revealed that John Clarke, chief executive of BET. the business services group, has received a 30 per cent increase in total remuneration, while Sir John Egan, chief executive of BAA, the airports group, enjoyed a 33 per cent rise. Average earnings are now

Countless reports have highlighted the tenuous link between executive pay rises and mediumterm company performance. But some argue that this misses the point. Executives of the largest British companies are now acquiring

US-style pay levels (although managers in general are still at more modest European levels) and the justification for such extravagance is not motivation of the top execu-tive but the healthy scramble it creates lower down for the top job.

Evidently, many of the reward management gurus recognise this is a weak argument. In their book on reward management by Rielen Mur-lis and Michael Armstrong, one of the "key issues" listed at the end is: "How do we justify paying vast (and, some people may feel, obscene) bonuses to our chief execu-tives and directors and at the same time clamp down on pay increases for the rest of our employees (who also contribute)?"

No one advocates a return to incomes policies and leased hand-made shirts for senior managers. But market forces will not curb the excesses. Companies do not simply pay what they can afford. In a free labour market they must roughly match what other companies pay, whether for clerical workers or chief executives. But that does not mean that the pay levels set by the market are immittable. Behind the market are a host of cultural factors. How otherwise to explain well-known anomalies such as, for instance, the fact that engineers earn so much less than accoun-

Executive pay is set by executives and approved by their boards and remuneration committees. When political and institutional pressures become great enough they will pay themselves less. That pressure ha been rising and will continue to rise

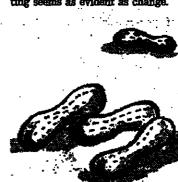
ries about pay rises in general. The pay revolution has not delivered pay discipline or a better trade-off between pay and jobs at the macro level. Indeed, the reemergence of "pay drift", the gap

earnings, is often attributed to overgenerous performance pay.

However, pay researchers have detected links between the new pay systems and rising productivity. Saul Estrin of the London Busine School has noted a positive link between profit-related pay and both productivity and job creation. He also defends the government's tax breaks for profit pay, which now cover more than one million workers, pointing out that most companies were using profit pay before joining the scheme.

Supporters of the pay revolution might argue that it has not yet been properly tried. Performance-linked pay is said to cover half the workforce but usually represents only part of the annual pay rise. The official New Earnings Survey for 1993 found only 3 per cent of gross earnings for non-manual workers came from incentive pay. And Paul Gregg of the National Institute for Economic and Social Research argues that the performance element for top executives is no

greater than 20 years ago. Indeed, with a pay policy in the public sector, 80 per cent of pay deals coming in at inflation or above and a differentials dispute on the railways, continuity in pay setting seems as evident as change.



between settlements and average

The pen is mightier than the bonus

from your boss recently? I haven't; and I am prepared to bet neither have you.

The question was nut to several hundred managers at the Institute of Directors the other day by motivational guru Stuart Levine. It met a sea of blank faces,

Most executives are too insecure themselves to offer genuine praise to others. Those who have been told to praise their underlings usually mutter a few clumsy words, or send an E-mail message. According to Levine, who runs the mighty selfimprovement company Dale Carnegie & Associates in the US, a note is better than the spoken or the electronic word. You can put it on your mantelpiece or show it to your

I see his point. I can just imagine how nice it would be to receive such a letter, how hard it would make me work, and how fine it would look in my sitting room. Yet on closer inspection, these

ave you received a hand-written note of appreciation Levine never leaves home without a stack of cards in his pocket ready to dash off one to anyone who does something right. I fear he may be in danger of devaluing his own cur-rency: there is only room for so many sincere notes of appreciation on the mantelpiece.

Moreover, herograms suffer from the same short-comings as other rewards. If you do not get one you may feel as though you've been punished, and if some people are being singled out for gold stars the others may feel mutinous.

In any case praise is only glorious if the person it comes from is suitably senior and well respected. There are some people from whom a letter of congratulation might be more likely to find its way into the dustbin than on to the mantelpiece.
Whatever the shortcomings of herograms, they are better - and a lot cheaper - than letting money do all the talking.

Nearly every company in the western world believes that money

LUCY KELLAWAY

motivates people, despite a growing company could have saved by sin-weight of evidence to the contrary. ply writing to this man and telling They feel that if only they can come up with the perfect performance-re-lated pay scheme and share bonuses, they will have a tip-top management team, and a gung-ho workforce.

But take that argument to its extreme, and you get the kind of sum that has just been awarded to Jim Fifield, Thorn EMTs music chief. His recently announced £13.5m package is made up of every kind of bonus, option, free share deal and all the other gimmicks so highly recommended by pay consul-

I wonder how many millions the

ply writing to this man and telling him he was doing a great job.

Which brings me to the perfect solution to the rail strike.
The cost of settling it is about

£3.4m a year (based on a 5.7 per cent rise for 4,600 signalmen now earning about £13,000). As neither Railtrack nor the government feel like paying that, Britain seems destined to more commuting night-mares. Unless, that is, another source can be found for the

I would like to volunteer Fifield as the answer to a prayer. He could foot the whole bill, become a Japanese tourist, would want to national hero, and still have £10m make multiple purchases of £400 left over for himself.

The Financial Times, like other go-ahead 1990s organisations, has introduced a suggestions box scheme to tap the latent creativity of its staff.

Here is my idea for making the newspaper more profitable – ration it. Let it be known that newsagents can sell no more than one copy per buyer. The fact that nobody in their right mind would want more than one copy is beside the point: the scarcity is bound to cause a stam-

The idea is not as fanciful as it sounds: it is exactly what Louis Vuitton is doing with its handbags. Last week it casually let slip that demand for its products was so strong that customers were being restricted to one or at most two

items each. I find it hard to imagine why anyone, even the most label-conscious

handbags. However, if there really is a shortage, I can't understand why Louis Vuitton does not go for the classic free market solution and raise its prices.

Almost as clever is Vauxhall's latest marketing wheeze. The car company is promising to hand over a cheque for £500 to every buyer of a new Vauxhall Cavaller. I consider myself financially literate, I know what a discounted cash flow is, and am not frightened of deriva-

But I am as silly about money as the next person: I would rather have a cheque for £500 having paid full price for the car, than pay £500 less in the first place.

There must be another idea for the FT suggestions box. While other newspapers are dropping their prices, we should raise ours to £1. and offer readers 35p cash back



DESERT ISLAND MANAGER

Six John Rgan, chief executive BAA, the airport operator, wo like a theatrical accompan

trainers of the first of the four functions of the first polit you need for you

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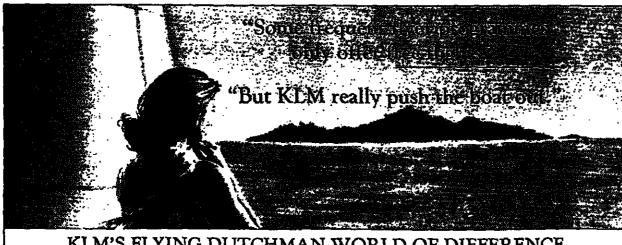
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What shoul seed and draid.
It would have to be Reliant for both. I lived for a while in Raly.
My Sivigerite meal is paste alla should in a restaurant in Rome and I would have to have lots of year.

Any frustrations?

Tes we have a holiday every fines bounts, hist a week or a fight days here or there. We would have the potasional boliday.

Charles Leadbeater



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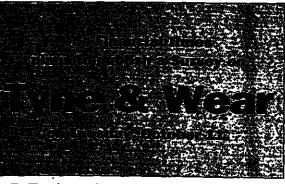
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AND IN THE MATTER OF
THE COMPLANCES ACTS, 1963
The submitted Creditors of the above samed company who by virtue of hiele respective contents defain to here here entitled to interest on their debts are required on or believe the object of August 1994 to such their research addresses and the perfections of their choices by such quatrantal interest (from the 19th day of their properties of their conference of their properties of their conference of their specially of their conference of their solicitation, if any, to Owns I Memphy of Cohegh House, if Lower Ellments of admints of their Solichest, if any, to Owen B. Manghy of Closingh House, it Lower Kilmented Rand, Sillogoga, Chung Dublin Ireland, the Official Liquiditors of the said Company and it so required by solice in writing from a Official Liquiditor, are to file such Affidavita in proof of chains as they say to advised and o give notice of filing themsel to the Official Liquidator and to silicad at such time and place as shall be specified in each notice or, in default thereof they will been excluded from any finarization made before such delute 1994 at 11 o'clock in the forestone at the Enuminer's Office, Acon IX Disabiligh, Dublin 7, Ireland has been appointed for bearing and adjudicating upon the said chains.

Dand this 24th Day of June 1994.

Alteroper Constant.



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FT Surveys

At first sight, everything. Mr Dean brings you khaki brown tablets to deal with "sprains, himbago and fibrositis". Nurse Sykes offers a white power with a faint vinegary odour suitable for treating "influenza, feverishness

and feverish colds".

But the ingredients are almost identical, essentially paracetamol and aspirin. The only real difference is Nurse Sykes is more stimulating: she administers half a mug of coffee's worth of caffeine with her patokillers. Both medications are available in UK pharmacies, along with another 70-plus branded headache treatments. Hundreds more fill drug store shelves in other

The fuzzy-headed can simplify the buying decision by staying loyal to one brand. Alternatively they can read the side of the pack to find out which of the four or five possible active ingredients is used. The intelligent pill popper looks

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 Aspirin which, after almost a century of commercialisation, is still the number one choice for many. There are three related compounds in the aspirin family. Acetylsalicylic acid, the official aspirin, salicylic acid and sodium salicylate. Each works in the same way, but acetylsalicylic acid is often preferred by drugs manufacturers because there may be a slightly lower chance of irritating the

 Paracetamol, called acetominophen or branded Tylenol in the US, is as effective as aspirin but without the tendency to irritate

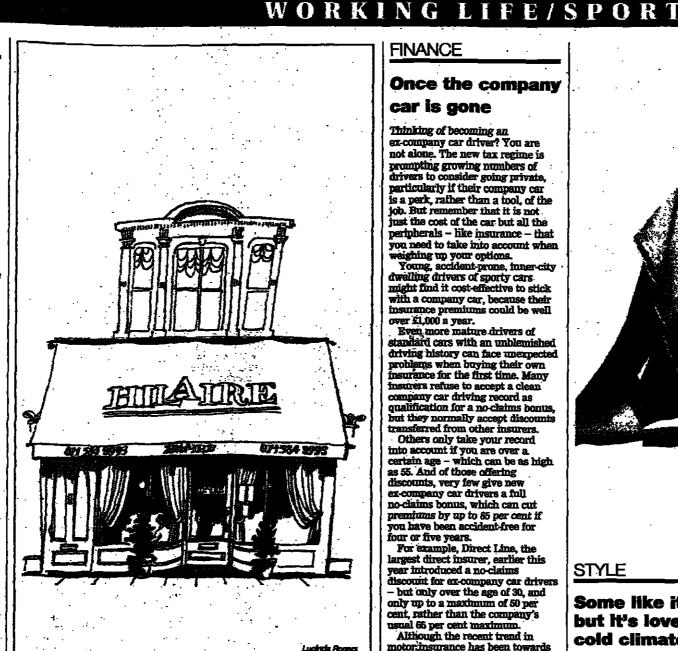
the stomach. Ibuprofen is a more powerful drug that began to be available over-the-counter in early 1980s and can be used for relieve menstrual and post-operative pain. Its newne means that it is not available in Greece, Portugal or Norway and a handful of other countries.

 Codeine and dihydrocodeine, are stronger still. These powerful drugs are mildly addictive and so not available over-the-counter (OTC) without a prescription in a pure form. Even in mixtures with aspirin or paracetamol they are only available OTC in a some countries such as the UK. France. Denmark and Canada. They were once used in cough medicines in the US, "but people used to drink it all at once," says one drogs

industry executive • Naproxen. A new name, available from this month in the US, is Aleve, a tablet containing naproxen which was one of the world's biggest selling rheumatisn treatments until its patent expired last year. The manufacturers say the price per dose is "comparable" to existing analgesics and the effect asts for eight to 12 hours: Other ingredients, such as

caffeine, do not ease pain. More headache products are likely to come onto the OTC market in the next few years as governments try to shift some of the costs of healthcare to the consumer. This is likely lead to a further proliferation of brand names. The clear-headed will stick to reading the list of ingredients.

Daniel Green.



EATING OUT

Fine food in an awkward shape

Hilaire, London SW7, currently embodies a lot of what is good and a little of what is awkward about ondon restaurants today. The good stems directly from Bryan Webb, an extremely talented Welsh chef, and his enthusiastic

young staff. This is obvious from a quick glance at the menu. The tempting list for lunch (£12.50 for two courses) included choriso and chick pea both, char grilled in tuna with krench beans and black olives or a pigeon breast with wild mushrooms as first courses. Breast of free-range chicken with potato pancake and tarragon, grilled fillets of Doyer sole with a becare blanc

mashed potato were three of the nine main courses on offer. Dinner is more expensive. Three scallops with a vegetable relish, a rib eye of beef with shallot and tarragon butter and a white and dark chocolate terrine may add

and braised pork cheeks with

up te over £30. Hilaire has managed to stay busy in the evenings with a keenly priced four course fixed menu at £25.50 and, after 9.30 in the evening, a two course post-theatre supper menu at £16 (the Albert Hall is within walking distance). The wine list is well chosen, fairly priced

and includes three pages of half

When Hilaire does disappoint it is entirely due to its physical structure. Many London restaurants do not have the advantage, like their counterparts in New York or Paris, of being situated on the ground floor of buildings along wide boulevards or avenues. Instead they are in narrow buildings, former townhouses, with small frontages (Hilaire's is only 4 metres wide but ascessity quite case was interested on a differ

At Hilaire try to book for the ground floor but not too close to the door if there is a strong wind blowing. Downstairs can be claustrophic with two tables in what were coal holes - but it is a particularly useful size for a small corporate dinner party. Webb's

Hilaire, 68, Old Brompton Road. London SW7 3LQ, tel 071 584 8993. Open Mon-Fri for lunch and dinner, Saturday dinner. Nearest Tube South Kensington. Opposite Christie's, South Kensington and close to the Victoria and Albert, National History and Science

Nicholas Lander

FINANCE

Once the company car is gone

Thinking of becoming an ex-company car driver? You are not alone. The new tax regime is prompting growing numbers of drivers to consider going private, particularly if their company car is a peak, rather than a tool, of the job. But remember that it is not just the cost of the car but all the peripherals - like insurance - that

weighing up your options.
Young, accident-prone, inner-city
dwelling drivers of sporty cars over £1,000 a year.

Others only take your record into account if you are over a certain age – which can be as high as 55. And of those offering discounts, very few give new ex-company car drivers a full no-claims bonus, which can cut premiums by up to 65 per cent if

For example, Direct Line, the largest direct insurer, earlier this year introduced a no-claims discount for ex-company car drivers - but only over the age of 30, and only up to a maximum of 50 per cent, rather than the company's

Although the recent trend in motor insurance has been towards direct, telephone based insurers, drivers going it alone for the first time could be well advised to talk to a broker, who may know which insurers are sympathetic, as well as calling a few insurers direct. As proof of your driving record, you will usually need an official letter from your employer, though

from the company's insurer. Of course, a no-claims bonus is only worth having if it makes the eventual premium cheaper than the alternatives. Simon Ward, of telephone broker Telesure, says

that insurers who do not give ex-company car drivers immediate no-claims discounts can sometimes still be cheaper - but this is not likely in the majority of cases.

of all your details over the phone to an insurer, it is worth asking at the outset what their attifude is to accident-free former company car drivers.



you need to take into account when

might find it cost-effective to stick with a company car, because their insurance premiums could be well

Even more mature drivers of standard cars with an unblemished driving history can face unexpected problems when buying their own insurance for the first time. Many insurers refuse to accept a clean company car driving record as qualification for a no-claims bonus, but they normally accept discounts nsferred from other insurers.

you have been accident-free for four or five years.

usual 66 per cent maximum.

a few insurers ask for a declaration



So before launching into a recital

Bethan Hutton

STYLE

Some like it hot but it's lovely in a cold climate

To sunny Rome from drizzly Heathrow. In these days of Euro-travel, such a hop for a day's business is a regular possibility.

The destinations may vary but the flexible, user-friendly wardrobe, which doesn't involve a suitcase of changes, is an important consideration.

This is where the cashmere investment makes the soundest sense. Warm when you leave from a chilly airport in early morning, appropriate for a strategic meeting and glamorous enough for an evening date. The right cashmere sweater even looks good thrown ssly round the shoulders as a shawl.

This season the choice of colour

is simple. Cashmere is at its most luxurious in shades of beige, ecru, cream or biscuit. All these work with the basics – navy, black, brown or grey - or even with more beige, white or cream if the film star entrance is what you're after. The shape to choose? Try the

re-vamped twinset last seen in Andrey Hepburn films with its prim little cardigan over a matching round-necked shape. Fashion buffs will wear them short and small, like the one by TSE (pronounced SAI) in silk and cashmere mix £139 at for the cardigan and £105 for the cutaway-sleeved top underneath (Harvey Nichols, Liberty's, Selfridges and Harrods).

At Scotch House you will find a more conventional design at £235 for 100 per cent cream cashmere. But they do have a sweet cropped version in lambswool in their Hopscotch range.

Easier on the silbouette is the loose, fingertip-length tunic-shape available at Pringle (in Hebridean cashmere for £190) and at Ballantyne (in two-ply, ribbed cotton/cashmere for £160), 153a New Bond Street.

The single ply cashmere tunic with side slits, at £235, is a bestseller at N. Peal in Burlington Arcade and the more expensive ribbed equivalent had to be brought back into the range due to its

popularity. Women have discovered that the tunic shape works equally effectively with a skirt (whatever length you're wearing) or trousers. Cut like fabric, it is a sweater with none of the breakfast TV presenter connotations.

Kathy Phillips, beauty director

B B · · · READING MATTER

Lessons from within Toshiba

Alchemy of a Leader, John K. Rehfeld, John Wiley & Sons, \$22.95.

authors to point to Japanese tradition and the Bushido, the "way of the warrior", for handy, if vague, ting on crisis management in the modern Western office, lessons are better learned from the manoeuvring in the tranches of Toshiba.

The borrowing of Japanese techniques is a modern role reversal, given that the art of borrowing, whether it be Chinese as a written language or a US

production line, has been been central to Japan's development. For western managers, the challenge is learning from Japanese companies without transplanting a corporate culture that has a worker introduced by company

Given that he is fond of the "strategic silences" that punctuate Japanese management, Rehfeld's exercise in alchemy begins without the characteristic humility of a Japanese student before his sensei (master). He opens the book with talk of "unique" experiences in management and his skills of synthesis

But a touch boastful begining becomes a book that does get down into the Toshiba renches to sift techniques. Having worked at that company in the US, the author is aware that with the transplant comes the likelihood of rejection, and that the style at beadquarters is not sarily common to the large Japanese family of

sub-contractors providing

the components.

The most useful suggestions are of the 'getting to know your customer" type. Japanese companies are miless cultivators. If you have taken advantage of the new-found freedoms in the Tokyo telecoms market to use other than KDD, the old long-distance telephone monopoly, the folks at KDD will persistently come a knocking, offering discounts, note pads and good reasons why you should rejoin their phone fold.

And there are lessons, as Rehfeld suggests, in avoiding the "hero" culture of the west. The victories should be shared, and the corporate wins should be "celebrated on a frequent and modest basis". While gesting that "silence" does have benefits, he also points to the need

for positive feedback often lacking in a Japanese office. Japanese companies are being forced to reassess their own management styles. Apparently conservative companies turned speculative in the late 1980s, generally seen late at night on



Tokyo station platforms when well-watered managers are stumbling home after an evening of cultivation in the corporate And when these Japanese

managers finally make it home, they will find a family less tolerant of late-night commitment to the company that was justifiable when the nation was devoted to "building a strong Japan". The executive cited as saying that the company is what allows me to enjoy my family...and to maintain the respect of my family" is in danger of being fired by his family.



ies and will be of particular interest to

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FT Surveys



Jeremy Bates wins through to the fourth round on Saturday

new think tank has been formed, which will discuss not how to combat federalism or how to house the homeless, but the more immediately pressing problem of how to make tennis more exciting. Those who follow Wimbledon have become possessed with the idea that contemporary players are less interesting than their predecessors. Instead of dismissing this

notion with a smart cross-court volley, the tennis authorities have been tossing it back and forth in a poinfless, feeble rally. Very few tennis players are regarded as charismatic when they are at the height of their powers. This is true today and has always been true. Only when their talent is

in decline, and they start playing in a more "entertaining" manner, because they have less to lose by deing so; or when they stop playing altogether, and memory makes of them symbols of antique charm only then do most tennis players acquire charisma. The truth is that when they were playing Nastase was a petulant pain and McEnroe a hysterical bully; that Borg was regarded as a bore and Connors as a boor. Nostalgia is as strong a force at Wimble-

It is hard to understand this idea that athletes who play tennis should also have to play to the gallery. Last week, at Wimbledon, I watched a match between Patrick Rafter and Sergei Bruguera which surely contained everything that a terms fan would want: five sets and four hours of toughness and brilfiance. But no - this was not enough. The crowd had to care who work and so from these two apparently equally personable men they takingly fashioned for themes a favourite, turning Rafter's zauche looks into those of a sex symbol his intense tennis into that nament's affirmation of English-

of a showman and his every instinc-

SPORT: LAURA THOMPSON



It's not tennis that's at fault

great personality. Incidentally, I think that they have picked a non-starter with Raf-ter, who at his post-match press conference revealed a personality which could rival Michael Stich's for charmlessness. Perhaps people don't mind that, as long as he is not I, however, ask nothing of my ten-

tive gesture into an expression of

nis players except that they don't behave badly. I would not have ga is as strong a mice at windle, of an as a Crostian serve, and it is mided if, on court, John McEnroe mide discontent where none had failed to shout furny little ishould exist who sace untimaled as jump the net, or hug the line judge, with their charm and style? More to as long as he had kept his abysmal the point why should they have temper to himself. I don't expect done so then, and why should they have tapdance after scoring, or Brian Moore to payade newly-shaved less. Moore to parade newly-shaved legs before a line-out, and I am quite happy for Pete Sampras to carry on playing without trying at the same time to get himself an Equity card. However, the phenomenon of Wimbledon is embraced by people who don't really like sport, but who simply like Wimbledon. Most of them are women. Wimbledon takes its cue from the flocks of schoolgiris who moon around its sumptuous courts looking for someone to

fancy, and from the neat, flowery

middle aged women who sit primly

in tea rooms and revel in the tour-

ness. If sport is, on the whole, a

man's world. Wimbledon is a woman's. For two weeks, women are in charge. The men who follow them around those green and sunny alleys look as quenched as the cuckolds in a Restoration comedy.

And it is because Wimbledon is a

sporting event for people who don't like sport that the entertainment factor carries so much weight. Unless the crowds have someone to prefer, someone to find attractive, someone to amuse them, they are not sufficiently interested in termis to restrain themselves from nipping off for a cup of tea with every change of ends.

But it is quite wrong to take this inciplent boredom seriously, and even more wrong to invite suggestions on the non-subject, which incidentally included the ideas that spectators might be allowed to applaud during rallies and to leave their seats whenever they wished Why should they do so? They are not children, to be given a lollipop to suck when they don't get their own way. There is something irritating and destructive about a sporting crowd which has constantly to be reminded of how grateful the event is for its participation; and something misguidedly humble about a sporting event which thinks its crowd has the right to behave like this. Spectators are important, but they are never more important than the thing they are watching.

The second secon

Facilitator, not instigator

Michiyo Nakamoto assesses Keidanren's new leader, Shoichiro Toyoda

the formal credentials. As

leader of a corporation with

global operations, he has expe-

rience of the international

community and the cosmopoli-

tan outlook that his predeces-

sor Hiraiwa felt were key pre-

After much agonising, Toy

oda took responsibility for

starting up manufacturing

operations in the US. That he

achieved that task success

fully, to the satisfaction of the

extremely cautious Toyoda

His position at Japan's larg-

est vehicle manufacturer

makes him particularly vulner-

able to the controversy - espe-

cially in the US - over the Jap-

anese trade deficit and

His family-run automobile

company gives him clout in

the domestic business commu-

nity, but he is also known to

be somewhat of a visionary. His idea of building homes

Japanese trading practices.

requisites for the job.

clan, is to his credit.

might give the uninitiated a clue about the new leader of Japan's is cleverly hidden behind the gold-rimmed spectacles, the dull navy suit and blue tie that adorn the slightly rotund figure of Shoichiro Toyoda, the new leader of Japan's largest and most powerful business

In the spacious reception room of the Keldanren, the Federation of Employers Associations, the soft-spoken Toyoda, who is also chairman of Toyota, the car company comes across as the typical stuffy Japanese busin

But as he reads carefully prepared answers to questions, like a Buddhist monk reciting his chant, Toyoda is twiddling

The image hardly befits the chairman of Japan's most powerful economic organisation who is charged with steering the Keidanren through one of the most uncertain periods in its 48-year history.

The old order, in which business, the bureaucracy and poli-ticians worked hand-in-hand to build Japan into the world's second largest economy, is crumbling. A huge political realignment is under way with politicians under pressure to reform their corrupt practices. The bureaucracy, which helped form many Japanese industries into world leaders, is under attack for its resistance to the deregulation intended to create a more consumer-oriented

The Japanese business com-munity is debilitated by one of the most prolonged economic downturns in recent history. It has been demoralised by the punishing surge in the value of the yen and frightened by the realisation that there are few leading lights in industry to guide the economy out of

Amid the crumbling political and economic order, the Keidanren faces a decline in its influence over the nation's development and is searching for a new role better suited to the changing times.

Yet it seems unlikely that Toyoda will provide the leadership people in Japan expect to



come from big business. Almost one month into the job. he acts like a man who has unexpectedly found himself in the spotlight, playing a role created for someone else.

The predominant question in the public's mind has been whether he can live up to the job. Even by his own account, he is not endowed with the stuff of which leaders are

In one of his most revealing remarks, the modest Toyoda once said of his predecessor Gaishi Hiraiwa, former chair-man of Tokyo Electric Power, 'Hiraiwa has the air of the philosopher. It takes a focused person like him to serve as chairman of Keidanren. I cannot devote myself like that now or in the future.

Indeed, until Akio Morita fell ill last November, Sony's chairman was thought to be the favourite to succeed Hiraiwa. It is not that Toyoda lacks worthy of a leading economy led to the establishment of Toyota Home which, despite its lacklustre performance, has been allowed to continue. It built up a decent operation in the Nagoya area where Toyota is based, but cannot compete with the larger housebuilders with nationwide networks. Other relevant experience for

leading the Keidanren was eained when as president of Toyota Motor Sales, he oversaw the painful merger in 1982 of that company with Toyota Motor, the mannfacturing parent. Bringing the two companies together entailed overcoming entrenched corporate loyalties which Toyoda managed by

spending a year at the sales company before the merger. An engineer by training, at Nagoya and later Tohoku University, he won the prestigious Deming prize in 1980 for his contribution to quality control. But to make his mark as the Keldanren's chief, Toyoda will need to show more determination and political skill than he

is known for. As the leader of an industry that is at the centre of US-Japanese trade tension, his role at Keidanren will also be scrutinised more than usual overseas.

Toyoda believes deregulation must be the centrepiece to reform in Japan. One of the first things he did on assuming the Keidanren chairmanship was to ask Prime Minister Hata to cut the number of bureaucratic regulations by half in the next five years.

Regulation, he argues, gives politicians and the bureaucracy too much influence over the private sector, which in turn is partly responsible for "the inscrutable administrative guidance and incomprehensible practices that receive so

much criticism from abroad". Excessive regulation also hurts the Japanese consumer, he says. It is mainly responsible for the huge price differentials between Japanese and overseas markets and it stifles the kind of creativity that is needed to give birth to new ideas and technology which could revitalise the economy.

Keidanren is very anxious to bring about an environment in which the people at large a more affinent society." The Keidanren last year decided to back its words with

action; it stopped its tradition of co-ordinating contributions from corporations to political parties, in particular the Liberal Democratic Party which, until last year, had ruled Japan for 38 years.
The battle to reduce the

scope for regulation in the Jap-anese economy, however, will not be easily won. The automobile industry itself, whose interests Toyoda will be keen to protect, is under pressure to ease the rigorous vehicle inspection system which has long been blamed for making it unnecessarily costly to own a vehicle and which benefited the industry by encouraging car-owners to replace them reg-

Toyoda is adamant, however, that the Keidanran is serious about deregulation. "It is true that deregulation will cause pain when certain industries and sectors have to adjust. However, there is a consensus in the business community that deregulation must be vigorously promoted so that consomers and other citizens can

That position is a dramatic turnround by the organisation that has long been one of the pillars, together with the politicians and the bureaucracy, that supported Japan Inc.

"When the economy was still preoccupied with catching up other advanced countries and perhaps overtaking them, very close relationships between politicians, the bureaucracy and the business community were necessary to increase general standards of living." Toyoda points out.

But in the future we must establish a relationship between the three which could be characterised by healthy tension, so that they will be mutually checking on each

That the Keidanren and Japanese business will be changed by the recession, the progress of political reform and by pressure from Japan's trading part-ners, is beyond doubt. But judging by Toyoda's approach, his role will be to facilitate rather than instigate, change.

The gospel according to Philip Morris

IN THE NEWS

over at the top of Philip Morris, the US food and tobacco giant, following fast week's resignation of Michael Miles. the erstwhile chalman and chief executive, writes Richard Tomkins.

The non-smoking Miles, who came from the food side of the business, seems to have done himself few favours with his low-profile approach to the job and even fewer with his support for a plan to hive off the tobacco operations into a separate company – which plan was subsequently ected by the board. Now he has gone, his job

has passed to a pair of ers: Geoffrey Bible, the new chief executive, who gets through a good few Mariboro a day, and William Murray, a more occasional puffer, who takes over as chairman.

Coincidentally, both men are Australian, and both - in contrast to Miles - have a background in the tobacco side of the business, having started their careers with Philip Morris Europe. They have known each other

for 20 years and seem to get on well. Both, too, seem determined to take a much more aggressive stance in promoting Philip Morris's interests. One of the first things they did on taking over was to tell the press about their plans. They also command considerable loyalty from the troops; their first appearance before employees at the New York headquarters last week was reportedly ted with a standing

In their new capacity as job-sharers, Murray, 58, will focus on strategy and ways of increasing shareholder value, while Bible, 56, gets

Widely regarded as one of the tobacco industry's most able executives, Bible has a reputation for toughness something he is going to need amid the wave of anti-smoking ntiment in the US.

Where Haumer will hang his hat

It was always clear that ageing wunderland Hans ver would be the first to go no matter how the battle over control of Austria's third largest bank, GiroCredit, was settled, writes lan Rodger. The question that intrigued Vienna's banking community ter Bank Austria finally took over Giro two months ago was where to. Haumer, 57, an

accomplished planist linguist and economist, came ndate to sort out a bizame problem. Giro's two largest shareholders, Bank Austria and First Austrian, were also two of its largest competitors. However, the too clever by half for most of the modest savings bankers behind Giro, and in the end they disliked him even more than each other.

Now he is off to executive director of the big BIL GT banking group controlled by the principality's royal family. No problem with squabbling shareholders there. He will also teach a monetary policy course at the University of Vienna and is setting up a financial services consultancy - perhaps specialising in how to rub

inkers up the wrong way. Abdul's golden

investment The biggest golden nandshake in Malaysian corporate history is being given to Abdul Khalid lbrahim, the head of Permodalan Nasional (PNB). the national investment agency, writes Kieran Cooke. Abdul is leaving his post as head of PNB to become group chief executive of Kumpulan Guthrie, the plantations and property company which is 90 per cent PNB-owned.

As a parting gift, Khalid has been allowed to buy 50m shares in Guthrie at the heavily discounted price of M\$2.50 (\$0.97) compared with the

present market price of around M\$4. The transaction gives the Khalid, 47, a 5 per cent stake in Guthrie and an immediate gain on paper of ground M\$73m. He has also been given a three-year option to buy a further 15 per cent

of Guthrie at a price to be determined. The deal has been given the thumbs-up by both Mahathir Mohamad, the Malaysian prime minister, and Anwar Ibrahim.

the finance minister. Market analysts are seeing it as a somewhat lavish reward for Khalid's achievements during his 16 years at PNB. In 1981 Khalid organised a M\$1bn "dawn raid" on the London Stock Exchange, westing control of Guthrie

from its British shareholders. Khalid save he views his shareholding in Guthrie as a long-term investment and plans to turn the company into a corporation "that will challenge multinationals in Malaysia and elsewhere".

Ashanti adds to its board

Following the successful \$1.7bn flotation of Ashanti Goldfields of Ghana on the London and Accra stock exchanges in April, Sam Jonah, chief executive, has created two new executive positions intended to make is board look more like the international mining companies it intends to compete with. writes Kenneth Gooding.

Colin Smith has been appointed chief operating officer and Mark Keatley becomes chief financial officer.

Smith, 57, was formerly a director of James Askew Associates, a mining consultancy. He also held a number of other senior appointments during a 30-year career in the mining industry. inter alia with North Broken Hill, CRA, and Hamersley Iron, ali Australian groups. He is already well-known to Ashanti as he carried out an independent engineer's audit for the World Bank's International Finance

Corporation when the IFC was poised to back Ashanti's plan to lift its output to more than 1m troy ounces of gold a year. Keatley, 36, is also no

stranger to Ashanti; he was responsible over some years for negotiating loan greements with Ashanti on behalf of the IFC where he has been divisional manager, treasury and financial policy.

CONTRACTS & TENDERS

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Tenders must be submitted in person or by post and received before August 31, 1994

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CALL FOR TENDERS MADE FOR CONTRACTING SEA TRANSPORT SERVICES OF TOMATOES, CUCUMBERS AND OTHER VEGETABLES FROM THE CANARIES TO THE UNITED KINGDOM AND EUROPEAN CONTINENT

A CALL FOR TENDERS is hereby made to contract sea freight services to transport tomatoes, cucumbers and other vegetables from the Canaries to the United Kingdom and European continent during the 1994/1995 export

Shipping lines can present their offers either at the F.E.D.E.X. Offices in Las Palmas de Gran Canaria (Vegetables/fruit Station, "La Luz" Wharf, top floor) or

at the A.C.E.T.O. Offices in Santa Cruz de Tenerife (Ribera Wharf). The terms of the call can be examined at the above mentioned offices and copies of same will be available to the parties interested.

All tenders must be presented by ELEVEN A.M. on JULY 4TH, 1994 (4.07.94).

The offers will be read publicly at the P.E.D.E.X. Offices in Las Palmas de Gran Canaria at ELEVEN A.M. on JULY 5TH, 1994 (5.07.94).

LEGAL NOTICES



EXPRESSIONS OF INTEREST

VIDEO IMAGE ANALYSIS TECHNOLOGY

Australia's Meat Research Corporation (MRC) has developed Video Image Analysis (VIA) technology which provides objective measurement of meat quality and yield rediction characteristics. While VIA has a wide range of potential applications within the food area and in other areas, particular devices for use within the meat industry have been developed to the working prototype stage.

ices have been tested in international field trials and have der bigh degree of accuracy. This has generated a significant amount of industry interest. The MRC now invites expressions of interest from organisations with the vision and resources to take this technology to market in Australia and throughout the world.

At this stage, proven devices include the: Whole Carcass Assessment Unit which operates on the slaughter floor

measuring yield - related parameters of lamb carcusses and beef sides. Chiller Assessment Unit measuring ment and fut colour, marbling, rib eye area and yield - related parameters on quartered beef carcases. Portion Assessment Unit measuring dimensions, meast and fest colour, marbling and fest content on individual portions of beef and lamb.

During 1994/95, the MRC will be assisting a number of Asstralian industry networks to demonstrate the benefits of thesechnology. An immediate opportunity exists to supply a literized muntiber of commercial prototype VIA systems for use by these networks as the flast step towards domestic and international marketing of the technology.

For further information, apply to the consultants to the Corporation Geoffrey Stackhouse, Strategic Vision Pty Ltd. Level 4, 234 Sussex Street, Sydney, NSW, Australia 2000 Tel: 61-2-283 4355 Par: 61-2-283 4536

Closing date for applications July 15, 1994

THE HIGH COURT IRELAND RIBERNIAN TRANSPORT COMPANIES LIMITED (IN LIQUIDATION) AND IN THE MATTER OF: THE COMPANY ACTS, 1967

AND IN THE SHATURE OF:
THE COMPANY ACTS, 1963
The admitted Creditors of the shown numed company who by virtue of their respective contracts claim to have been willided to interest on their debits are required on an before the 9th day of August 1994 to send their muses and addresses and the (perfective, of their eleises for such contractual interest (from the 19th day of November 1970 up to the date of discharge of their respective down) and the names and addresses of their Solicitors, it say, to Owas If. Murphy of Clodagh House, 6 Lower Kilmschaft Novel, Stillergan, County Dublia, Ireland, the Official Liquidator of the said Company and if so required by sortice is writing from the Official Liquidator, are to file such Affidavity in proof of claims as they may be advised and to give notice of filing thereof to the Official Liquidator, are to file such Affidavity in proof of claims as they may be advised and to give notice of filing thereof to the Official Liquidator, the third at such time and place as shall be specified in such notice or, in default thereof, they will be excluded from any distribution much below such debts or claim are proved.

The 6th September 1994 at 11 o'clock in the foreneous at the Braminer's Office, Aras Ui Dhalaigh. Dabits 7, Ireland has been appointed for hearing and adjusticating upon the said claims.

Appointed text : the said claims. Dated this 24th they of June 1994.

Notice of appointment of Administrative Receiver

Company tume: Accounting Company Services Limited. Registered sealer: 1655362. Trading names: ACS Seminoses Centre. Nature of business: Office suppliers and statement. Trade classification: 22. Date of appointment of Administrative Receivers: 15 June 1994. Name of person appointing the Administrative Processors: I londo State Librat. Administrative of person appointing the Administrative Receivers: Lloyds Bank plc. Joint Administrative Receivers: EM Salves (office holder number 7925) S.P. Holgare (office holder number 7931). Coopers & Lyterand, PO Hox number 7931). Coopers & Lyterand, PO Hox 242 Orchard House, 10 Athless Flares.

SUGAR & INTEGRATED INDUSTRIES COMPANY

"S.I.I.C."

12 GAWAD HOSNY STR. CAIRO/A.R.E.

Fax: 3934558/3920509 - Telex: 21193/20906 S.L.L.C. UN Announce for the international TENDER no. 2/6 Belkas for PUMPS for BELKAS PROJECTS financed by the SAUDI FUND DEVELOPMENT according the

1. Offers will be received & opened on 24.8.94 at 12 o'clock Cairo local time.

2. Tender documents can be obtained from above address against a stamped application and paying L.E. 1000 for one set to be increased by 10% in case it is requested by MAIL.

3. Offer should be submitted through registered EGYPTIAN AGENT and accompanied by the

a. Original of agency form 14C for review and copy

of it attached with the offer. b. Copy of receipt of purchasing the tender

c. 2% at least (bid bond) unconditional bank guarantee issued from a first class bank and endorsed from a first class EGYPTIAN BANK to be increased to 10% in case of awarding

4. Offers not complying strictly with terms will be

NOTICE OF SALE OF **HOTEL BUSINESS**

On 20th June 1994 a formal offer to buy, with reference to the situation of assets and liabilities as of 31.12.92, was presented for 7,000 million Italian line of the whole estate of the Società Albergo El Faro S.p.A., proprietor of the hotel of the same name situated in the Baia di Porto Conte-Alghero (Sassari).

Whoever intends to better the offer must do so within the deadline of 27th July 1994, according to the procedure and conditions, relative also to the deposit, indicated in the sale procedures which, together with the copy of the offer to be bettered, will be given - c/o the "Valutazione e Cessioni" Office of SIR Finanziaria spa in liquidation, Via Grazioli 33, Milan, telephone (02) 66220752, fax (02) 6462309 - to every interested party offering the preliminary security requirements.

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ome of the world's top high-technology companies are now working on ways to put a high-resolution, two-hour film on a 3.5 inch disc that you can pop into your video Walkman or your multimedia player/computer/TV/game machine

A key element in future multimedia systems will be the medium itself - the means by which files containing data and graphics are stored and retrieved. As any computer user knows, graphic data files can get extremely large. Even something as simple as a 8 x 10 colour portrait fills up tens of megabytes. And the same motion picture that fits nicely on a rental tape is far too big for the largest personal com-puter hard discs.

The high-tech industries of Japan, battered by the strong yen and devastated by plummeting consumer sales are looking for their next "killer" product. They need something to succeed the VCR. As the chairman of one high-technology company says: "Everyone has a VCR...and they never wear out." What is needed, both as a VCR replacement and a basic element of multimedia systems, is a data storage method that combines very large size with the breathtaking data transfer speed demanded by both real-time video playback and advanced

Transport

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3D video games. In the last decade compact discs, using optical recording techniques have completely supplanted the needle-andgroove recording technology that was introduced by Edison and survived, admittedly with sophisticated enhancements, for most of this century. Those same techniques can and have been applied to video recording. But there are problems. Pioneer's laser disc format has been on the market for years and still provides the only

Coming soon to a tiny disc near you

Robert Patton looks at new video storage methods

alternative to video tape for high-resolution recording. But laser discs are large, cumber-some and unlike videotape, cannot be erased and re-used. A consortium of consumer tronics makers in Europe and Japan, last year developed what they call the video CD. The same sized as a compact disc, it can play back pre-recorded movies on equipment designed for it. But video CDs have their own problems. They sacrifice resolution and picture quality and require two or three discs for a single feature

film. Unlike videotape, they are not rewritable. The not-yet-developed, next generation video storage medium must meet several requirements. In addition. there are features that, while not absolutely essential from a technical point of view, may be very important from the standpoint of market success.

 High resolution. The closer we get to the time when current video standards will be supplanted by high-definition TV, the less likely that the market will be satisfied withpresent standards of quality. · Righ capacity. The largest hard disc drives currently available for personal computers can only store about 15 or 20 minutes of high quality video even using the latest

compression methods. • High speed. To play back full motion video in real time requires more than just the capacity to store the data. The recorded data must be trans-ferred a sufficiently high rate of speed. MPEG-2, currently the most advanced compression standard requires a data transfer rate of nearly 10 megabits per second.

• Record capability. A major reason for the success of video tape cassettes is the ability to record as well as play back. Most industry watchers agree that laser discs would have a much larger market share if users could record material on them. Compact discs replaced records, but have not replaced audio tape cassettes for just this reason. And when Sony Corporation launched its mini disc (MD) format, it found a way to provide the ability to record as well as play back pre-recorded material

here are currently three

basic types of optical disc recording technologies. The first method, used for CDs, pre-recorded MDs and laser discs, impresses information on to a disc by burning pits into the recording surface. To get an idea of the size of these pits, imagine a CD blown up to the size of a football field. Each pit would then be about as large as a grain of sand. This type of disc has several advantages. Duplicates can be stamped out at low cost, much as records used to be pressed. The discs are durable and can stand up to relatively careless handling. Capacity is comparable to a large hard disc drive.

CD-ROMs (compact discs used as read-only memory) are real time. becoming quite popular with computer users and software

vendors. But CDs can only be of the art in the last few weeks. written once; they cannot be re-recorded and while more IBM Corp. in the US, demonstrated in May an optical disc than adequate for audio applirecording system that cations, they lack the capacity to store and play-back full-length motion pictures on increased capacity tenfold. IBM's approach was direct, it simply combined ten discs into a single disc.
Magneto Optical (MO) discs, a composite sandwich. To write to or read from a particuthe second type, use both opti-cal and magnetic recording techniques. Erasable and rewritable, they offer relatively lar disc in the sandwich the laser's point of focus is

Which technology is going to high capacity up to about one-third that of a CD. To produce emerge on top of the heap in a few years is hard to say. In MD recorders, Sony fell back on this technology. Pre-readdition to the basic types outlined above there are likely to corded MDs use the same basic be advances in technology that technology as CDs. The smaller size is achieved by cut across several categories. A number of corporate and uniusing different standards and versity laboratories around the methods for compressing the data on the disc. But you canworld are in a race to develop a low-cost, low-power semiconnot erase a pre-recorded MD. Recordable MDs, even though they can be played back on the ductor laser that emits a blueviolet beam. Because blue light has a shorter wavelength than red, a blue laser could burn same equipment, use MO techsmaller pits into the surface of The third type is the phase-change optical disc which uses a CD. Smaller pits spaced closer together take up less space. More pits equals more capacity, equals longer record-ing time. All optical recording a laser at varying levels of power to alter the structure of the recording surface from an amorphous state to a crystalsystems use lasers so a comline state and vice versa. Phase mercially successful blue laser could increase the capacity of change discs are fast and recordable, but current phase-change disc drives cost about almost any optical recording system four fold.

Hitachi researchers just reported the results of an experiment designed to get blue laser results using con-

drives of this type to commercial customers for several years and recently announced technical improvements that could make it possible to put 6 gigabytes of data on a single 5.25 inch disc. Toshiba Corp. has no drives of this type on the market but last month demonstrated a prototype that had the capacity of a CD, was recordable and erasable and could record and play back 20 minutes of full-motion video with MPEG-2 compression in Other companies have been extending the optical disc state

> ventional red lasers. What the experimenters did was force light from a red laser through an optical fiber with a diameter that was only a tenth of the wavelength of the light beam. A high-tech version of passing a camel through the eye of a needle, the feat is admittedly many years from any practical application. But if successful. the method could be used to carve out pits from the recording surface of an optical disc that are even smaller than pits produced by a blue laser.

> In May, Sony announced a breakthrough that could increase the capacity of any optical disc that stores information in the form of pits. In principle, what Sony re

ers did is simple. Where conventional CDs vary the size and spacing of pits to record information, Sony's experimental makes the centre-to-centre distance between pits constant. then varies both the left and right edges independently. Because the new scheme allows a greater number of variations for each pit, it allows more information to be placed on a disc - at least twice as much.

Another significant element of future optical storage stems for video applications is data compression. Although data compression algorithms the precise mathematical ssion of the compression

the underlying principle is simple. Both motion pictures and video recordings produce the illusion of motion by presenting a series of still pictures (frames) so fast that the human eye cannot detect the difference. But the difference between successive frames may not be large Just as animated sequences do not require a new drawing for each frame, compression systems allow the recording of frame-toframe changes. The idea is not to waste disc space on picture elements that have not changed from one frame to the next. MPEG-2 is the most advanced current standard, but newer methods will soon be

The all singing, all dancing newspaper

By Raymond Snoddy

One new local newspaper produced last week has that most traditional of names -The Gazette & Herald. But that is one of the few traditional things about a very special paper, created by a collection of editors from the Westminster Press regional newspaper group, working closely with Digithurst, the communications research company that specialises in multimedia.

The colour picture of a trans-Atlantic yacht on the front page, for example, had a rather unusual feature - you could hear the sound of the waves! And when the reader checked out the latest pop record charts it was possible to click on to clips of the actual records

Naturally when you turned to the classified advertising section it was easy to call up colour pictures of particular cars or houses you were interested in buying. All this is possible because The Gazette & Herald is delivered electronicly to personal computers using

data broadcast links. Using the conventions, and to some extent the design of an orthodox newspaper, the project is probably the most ambitions trial so far for an electronic newspaper in the UK. "Anywhere you can receive

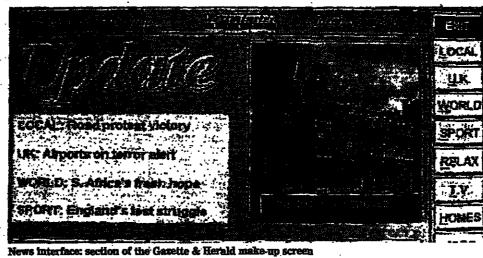
good quality television you can receive this," says Peter Kruger, managing director of Digithurst, who has been working on digitalisation for more than a decade... In the experiment, the latest

news was transmitted by

modem from the Marlborough offices of the Wiltshire Gazette & Herald and brought together with information created by pupils at the St John's School in Mariborough.

The electronic newspaper trials, are part of a broader series of advanced communications projects run by Digithurst. In these programmes the Wiltshire school is connected by an integrated services digital network (ISDN) link with the Bookholtzberg School in Gandesrkesee, northern Germany. Apart from swopping elec-

tronic newspapers and their schools have facilities for video conferencing and on-line lan-guage translation. The experimental electronic newspaper was produced by Digithurst multimedia software. Called



PictureBook, this is already on the market. The "authoring" system to put together the sound, pictures and data costs £595, while the special card in the PC needed to receive the In the wake of the electronic newspaper, Kruger believes service costs £99.

Kruger's other multimedia creations in the past have ranged from a system for hairdressers, which allows clients

five times as much as MO

Matsushita Electric Indus-

trial Corp. has been supplying

to try out different styles on pictures of themselves, to car presentations that enables potential customers to 'explore" a car on screen.

that commercial versions may be no more than three years Meanwhile he has in his

company foyer another way of keeping up with the news - an instantaneous teletext system. Digithurst has combined the hmadrast teletest service with the PC and anyone waiting to see Kruger can call up the latest, national and local news, or the performance of a particular share, simply by touching a special screen.

Superhighway push by Europe

By Alan Cane

A group of leading Europe based electronics manufacturers and institutions have formed an association to promote the development of multimedia technologies and services. The European Multimedia Forum, launched late last week, brings together computer manufacturers, telecommunications companies and publishers in a bid to facilitate the exchange of information and the development of business

partnerships. The members include the Association of Commercial Television in Europe, British Telecom, Compag, France Telecom, Hewlett Packard. ICL, Mercury, Philips, Sema, Silicon Graphics and Sony.

It said: "The forum will

synergies and function as an interface between business and government. In particular, the forum will concentrate on the implementation of a **European Information** Infrastructure (the Europrean "superhighway"). Formation of the forum follows quickly on publication

encourage cross-industry

of the Bangemann Report, which urged European companies to seize the opportunities offered by multimedia. Membership is open to any size of organisation interested in multimedia. The annual fee is ecu500 for small corr and ecu1000 for large companies and organisations.

More information from Monique Meche, Bates & Wacker, 9 Rue du Moniteur, B-1000, Brussels.

Music to the eyes

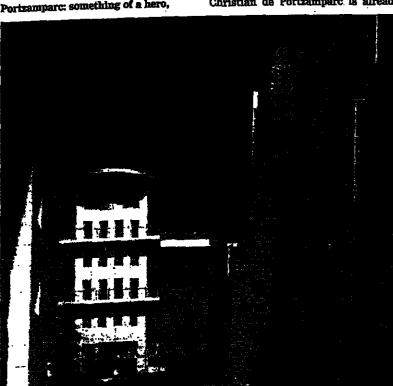
Colin Amery on the work of Christian de Portzamparc

Portzamparc: something of a hero,

o win a Nobel Prize in any field is considered to be the ultimate accolade for anyone's career. The equivalent award in the field of architecture is the Pritzker Prize, sponsored by the American Hyatt Foundation.

During the last decade it has honoured the good and the great of the architectural profession. It came as something of a surprise when it was awarded last week to the relatively unknown 50-year-old, French architect Christian de Portzamparc. He is the first architect of the post war generation to win the prize, and the first

For enthusiasts of the relatively arcane in contemporary architecture, Christian de Portzamparc is already



Further afield: apartment block in Fukuoha, Japan

something of a hero, and it is possible to bring yourself up to date with his relatively small output of work by visiting five sites in and around Paris. When Portzamparc spoke at the prize giving ceremony in Columbus, Indiana he said that his "interventions" in cities are what he regards as his key works. He speaks lovingly of cities and the need for architects to think ubanistically in ways that can refashion and civilise our

On the Rue Nationale in south east Paris he is rehabilitating a series of blocks of public housing built in the 1960s. These blocks are typical of so many that were built at that time - 12 to 14 storeys of rigid, and dull concrete frame building - uniform and

soulless.

In Britain and the US the current mood would demand that these structures were demolished. Instead, in Paris, new balconies, white and yellow awnings have been added, together with some new low-rise buildings to house a community centre and a school. Just off the Rue Nationale itself, in

the Rue des HautesFormes, Portzamparc has built arches across the street to soften the effect of some housing built in 1979, to aftempt to create an sense of an enclave that is enhanced by trees and trellia.

But these minor changes are not a lot more significant than a touch of lipstick

on the lined face of an elderly and faded blonde; and scarcely enough to merit a major international prize.

It is the few completed Portzamparc

buildings that justify the prize. The City of Music - a conservatoire in the far north east of Paris - is designed by Portzampare as part of the Parc de la Villette, one of the last of the Grands Projets intended to make Parls the cultural and educational centre of

This is the best place to see the work of this architect. He has adopted a hybrid modern style that seems to look back to the 1930s in its curvilinear language and yet it is, in its random geometry very much influenced by Le Corbuster. It is a very curious and disturbing lives.

marriage of styles - the Portzamparc designed Holiday Inn near the same site is a sinuous green slab that would look very much at home in Miami.

It is the second phase of the City of Music that has just been completed. It comprises an elliptical concert hall which has an amazing spiralling lobby all round it. The rather tough and angular entrance facade belies the elegance within - the recital rooms have curved walls and the hall itself is simple but very stylish.

The large conical recital room that looks like a streamlined ship's funnel has a quite remarkable interior. The ceiling soars upwards into the cone shaped roof and is panelled with timber in a pattern that resembles the roof of the Pantheon. It is an almost ritualistic space, the concert platform is like the altar and the audience a congregation. drawn together by the unexpected intimacy of this large space.

A very accessible example of his work is the Cafe Beaubourg which adjoins the Pompidou Centre. He has installed a sweeping grand staircase - all 1980s and the cafe occupies two large floors decorated with murals of Portzamparc's actual designs. Another key public building where his work can be seen is the addition to the Bourdelle Museum which houses a collection of classic al

Outside Paris is his School of Dance for the Paris Opera at Nanterre - a pair of post-modern pavilions. Further afield is his apartment block – a square tower with a circular roof - in Fukuoha in

What is apparent from all his buildings is that he is full of architectural ideas. They have not yet gelled into a coherent Portzamparc language. His work is very hybrid and is still evolving. He only opened his office in 1970 and 24 years is not long in the life of an architect. Despite this major prize, I would say the jury is still out on whether he is simply a stylist or whether his architecture is of such significance that it will change people's



City of Music: hybrid modern style that seems to look back to the 1930s

BUSINESS TRAVEL

BA and TWA fare sale British TWA, have

a sale for en several LIS citie and the UK. British Airways's offers

represent a 33 percent to 47 percent reduction on normal tares. Reservations must be made by michight Monday on both strines. Travellers must depart veen August 1 and eptember 7, and plete trips by ember 14. A Saturday

India bans alcohol The indian government said yesterday it was barning alcohol. on all domestic flights with ... immediate effect because drunken passengers threatened

Quoting Civil Aviation Minister Ghulam Nabi Azad, the Press Trust of India said a notification barning consumption of liquor on domestic flights was being issued.

"We are taking this step in view of the number of incidents reported when passengers had become intoxicated during flights posing hezards to flight safety," Azad said at the end of a two-day meeting of his ministry officials.

Lufthansa and Orly rights Lufthansa supervisory board chairman Juagen Weber said Lufthansa is set to make a request for to make a request for landing rights at Orty airport, Paris, for the Frankfurt or Munich routes. "It would be astonishing if

the French refused the Germans what they had agreed with their English friends," he said, in an interview with Le Mande he to focus on its core air operations and may dispond its building and software invital activities, setting up subsidiaries for cargo transport, electronics and

Ryan routes

Ryanair, the fast-growing independent Irish airline, is to open a new "low-fares-no frills" Dublin-Gatwick route from October, with a schedule of up to six flights per day. Return fares, will start at 1269. The airline has ploneered low-cost eir travel across the Irish Sea and last month added

Manchester and Glasgow Prestwick to its list of UK destinations out of Dublin. Aer Lingus, British Midland, Plyanair and Virgin are all now competing intensely for business in the Dublin-London air travel market, the second busiest in Europe, so travellers should check with each to see what apecial offers are available.

Russian crime quide. The Russian government has issued a "survival quide for foreigners on how to avoid orine, warning them not to deal with shady businessmen and not to accept life or

and not to accept lifts or drinks from strangers. The interior ministry said in a pocket-sized guide, which will be sent to embassies, that almost ball the 5,000 effences against toreigners uncovered over the last year were the result of carelessness. Last weer, 63 foreigners

Last year, 63 foreigners were murdered. In the Brak five months of this year, when citizens of former Soviet republics were included, 65 were killed.

British rail strike. A strike planned for Wednesday by British: railway signal staff could severely clanut.

both of the previous one day

in as many weeks. The staff are staging weekly one day strikes ever a complex pay and productivity deal. Railtrack, which operates the rail infrastructure has been able to run only limited services during

Likely weather in the leading business centres Mon Tue Wed Thus Fri Hosey Koong 30 30 30 31 30 31 Maria Bar Da Da Bar Paratier 33 \$ 34 \$ 34 \$ 32 \$ 20 arbebebebe C. Angeles 💥 31 💥 36 💥 37 💥 34 Par के अप का कि आ कि आ

All the fun of low fares

Richard Tomkins explains how to track down cheap US flights

ity the US airline industry. Hardly a day seems to pass without news of another US carrier slashing fares on shorthaul domestic routes in an attempt to preserve market share from low-cost competitors. For most airlines, the prospect of a decent profit looks as far away as ever.

But what is bad news for the industry is good news for the cost-conscious business traveller. Although air fares in the US may not have sunk to the depths they plumbed in the fare war of summer 1992, they still represent a bargain.

How, though, to take advantage of them? Many must have heard about the inroads being made into the big US airlines' markets by upstart, low-fare carriers with names like Kiwi International, UltrAir or Republic Air, and wondered

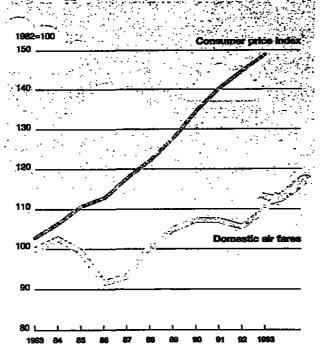
how to book with them. Cut-price fares in the US fall into two main categories. The seasonal promotions frequently offered by big carriers on selected routes are almost useless to business travellers. because they commonly require advance booking and Saturday night stay-overs, they

refunds, and the number of tickets is rationed. But on the routes where low-cost carriers are in operation, rock-bottom fares are a permanent fixture on all flights, and rarely carry

any restrictions. Booking with these low-cost carriers should be easy. Unlike People Express, the low-cost tried to save money by cutting out the travel agents, nearly all today's low-cost carriers are on the travel agents' computer reservations systems. So theoretically, once inside the US. it is just a matter of finding the nearest agent and asking.

Predictably, though, things are not always quite that simple. So here are a few tips: Travel agents work on commission, so obviously they earn less by selling you a cheap ticket than an expensive one. The American Society of Travel Agents bristles at suggestions that any of its members would be swayed by such considerations but, to be on the safe side, deal with a reputable agent and make it clear that you are looking for the lowest-cost option.

• The biggest low-cost carrier Southwest Airlines, the one are ineligible for exchanges or that started it all - is not on



three of the four big computer reservation systems, so some travel agents may not automatically quote its rates. Ask whether Southwest flies the route you want and, if you run into difficulties, dial Southwest direct on 1-800-435-9792. • Do not be too surprised if

there is no low-cost option on your chosen route, particularly if you are flying in the east. The really low fares have still reached only about 20 per cent of domestic routes and most of these are in the south and west - though they have begun to spread in the east this year. If you know your itinerary in advance, check out the bargains to be had before you leave. American Express's air fare management unit in New York says packages available from some US airlines could end up much cheaper than getting a transatlantic flight on a big carrier and switching to low-cost airlines. It recommends you consult an experi-

enced travel agent - like, er,

Variety of voyages to Vietnam

British Airways has become the latest international airline to begin negotiations for flights to Vietnam. The fast-growing Vietnamese economy and expand-ing tourism industry are making it an increasingly attractive destination for air freight and passenger services. BA hopes to start flying twice a week between London and Ho Chi Minh City, the southern commercial centre, in the first half of next year. The flights may go via Hong Kong, rather than more directly through Bangkok, to fit in with BA's other flight schedules.

Air France, Lufthansa and KLM (all using combination Boeing-747s for both passengers and cargo) already fly between western Europe and Vietnam, while Vietnam Airlines, the national carrier, begins flights to Berlin and Paris via Dubai in July. Sev-

British Midland, the UK's

second largest scheduled air-line, is offering business trav-

ellers flying from UK regional

airports to Europe average

Iberia of Spain.

eral Asian airlines fly to Vietnam, while Gulf Air and Emirates from Abu Dhabi and Dubai are expected to start flying there soon.

US airlines are also negotiating with Vietnamese and US ruary to lift the US economic

savings of 16 per cent on full club class fares. It has negotiated a marketing deal with three European airlines: Alitalia, Austrian Airlines and The new initiative, which in some cases offers savings of up and Teesside.

to 22 per cent, allows passen-gers to buy special "through fares" to 15 European destinanew "through fares" is that return fares were introduced

embargo against Vietnam. Vietnam's communist government is liberalising its air transport system, along with the rest of the economy. Foreign airlines will be able to issue their own tickets in Vietnam - previously only three ' airlines were allowed to do so. and the rest had to refer customers to Vietnam Airlines. The government also plans to end subsidies for Vietnamese citizens on domestic flights -

locals pay less than half the fare charged to foreigners. Other opportunities have also arisen for airlines. Air France is leasing, with crews, Airbuses and ATR propeller aircraft to Vietnam Airlines for domestic and international flights. And there are plans to improve the main airports. The government says Tan Son Nhat, the busiest airport, needs \$1.8bn worth of upgrading in the next two decades.

The choice of carriers is increasing rapidly, says Victor Mallet

Ho Chi Minh City: BA plans to fly there twice a week from London

Regional savings

Paul Betts on a UK airline's initiative

tions - including Alicante, journeys must be completed Barcelona, Bilbao, Bologna, Madrid, Malaga, Milan, Palma, Pisa, Rome, Seville, Turin, Valencia, Venice and Vienna – from five UK regional airports. These are Glasgow, Edinburgh, Belfast, Leeds/Bradford

The only restriction on the

within three days of departure. Normally, a journey from a regional UK airport connecting in London with a flight on another airline to a destination in Europe would have two separate fares for the different

authorities for traffic rights.

There are 1m ethnic Vietnam-

ese living in the US, and travel

between the two countries is

increasing following President

legs of the journey. These three-day executive

on British Midland's London Heathrow services to Europe last year, when the airline launched its Euroclass, offering a flexible range of business class fares. They have now been extended to British Midland UK regional services in conjunction with the three European airlines.

British Midland recently formed a ticket code-sharing alliance with Austrian Airlines, and is expected to forge similar code-sharing agreements with Alitalia and Iberia



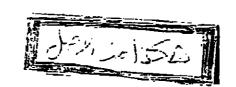


THE AMERICAN EXPRESS I I MUST

have eaten something weird,

can you help me find an English speaking doctor " SERVICES.





For 50 years this son town has offered a genteel ambience for a festival calebrating the work of living composers, mostly Entitish. The highlights of this year's golden. Jubilee of the Challenhain

international Festival of Music Include premieres from Justin Met and Thes Muscreve Visiting collective Include Africa Brendet and the Amsterdam Baroque Orchestre: A cycle of the Lightense, parties of me Beetholing quarters and some failing open; and beliet vary the feisible programme, which opens on Middle



will swing to (above sent, require, newseas, use Attails Superchofr and the opera or historia. A major highlight this year is the 50th analysisacy celebrations of the Verve Label shift the appearance of its entire rester on, one bill scross the other.

AMBASSADORS THEATRE Although 'Glograna', his controversiel broadside on the sex war, has just . ended its extended West End run,
David Marriet is still to be found on London stages. 'Glengary Glen London stages. 'Glengary Glen Poss' recently opinied at the Donner Warehouse; and his latest play, 'The Cryptogram', a study of family betrayal, opens on Wednesday at the Ambassaciors

Theatre, starting Linckey Duncan (below left) and the award-winning comedian Eddie Izzard.



TANGLEWOOD The summer season at Tanglewood, in the heart of the Massachusetts countryside, begins on Friday with the first of a

series of Independence Weekend. Wynton Marsalis, Lizz Minelli and Nanci Griffith. Tanglewood's new concert hall will be inaucurated on July 7, when the Boston Symphony Orchestra takes up residence for two months of concerts. Artists appearing with the orchestra this summer include Jessye Norman above), Gidon Kremer, Bernard Haltink and Manss

WELLS South Africa European debut on Tuesday when It followed by

Underworld

Warning: music can damage your health

Muscle strain, alcoholism and stress-related illnesses are afflicting British orchestras, reports Garry Booth

rocks, or bend a knotted oak, said Congreve. But it can have the opposite effect on the player. The pressures of finding and keeping work in music, maintaining tough prac-tice regimes and keeping anti-social hours can have serious implications for the physical and psychological health of a professional musician.

Cast an eye over the orchestra at the next concert you go to. Look at the strings and pity the poor viola player: a questionnaire circulated recently among the string players in the major orchestras showed that 80 per cent of viola players suffer from upper limb disorders. Many, because they usually sit in front of the brass, have damaged hearing from years spent in the firing line. Brass players have their own serious (and common) problems, usually to do with the embouchure. Players in their thirties and forties often experience inexplicable and hard-to-cure muscle control difficulties which make it hard to reach the

Look at the soloist: so severe is stage fright for 15 per cent of orchestral musicians that they routinely take beta-blockers to steady the hands when performing. In age of four members will he fighting alcohol dependency, acquired in an effort to drown stage fright.

Dr Ian James, a consultant physi-

usic hath charms the Royal Free Hospital in North to soothe a savage breast, to soften clinic there. He holds one session a the ENO, month, which is consistently overbooked and currently has a three month waiting list. Most of the cases he sees, if not directly related to "nerves", are exacerbated by the psychological pressures of the job. Clearly, worries over funding, the threat of mergers and closures and changing standards of orchestral playing are not helping: "Musicians can't afford to wait for treatment. They work in a competitive environment and will not take the night off for fear of losing their place. They live in a closed community, practising by day and playing by

helpline set up earlier this year by the British Performing Arts Medicine Trust (BPAMT). which Dr James helped found, takes up to half a dozen calls per day from musicians with occupational health problems. The majority of these calls are from people suffering from muscle pain in the wrist, shoulder and fingers. Upper limb pain, sometimes inaccurately referred to as RSI (repetitive strain injury), is a common problem, especially among string instrumentalists, guitarists and pianists. musculo-skeletal disorders in musicians have as much to do with technique and anxiety as the repetitive nature of say, violin playing (six cian and clinical pharmacologist at hours practice a day is the average

for example have special problems. elbow room being in short supply Surprisingly, Dr James does not prescribe rest and splints for upper limb pain but is more likely to suggest corrective measures for bad posture - the Alexander technique or the Feldenkrais method, for example. In addition he will try to find the cause of muscle tension: incorrect technique, or anxiety are likely causes. "But don't stop playing - play to the point of pain every day," he advises.

Upper limb pain is not confined to stressed out professionals, however. Alex Scott, administrator of the BPAMT, is concerned at the number of young musicians and students who seek counselling through the helpline: "We encounter tal-ented teenagers who are forced by parents and teachers to practise too long without a break. Apart from the direct physical implications of playing so much, it means that the youngster is not doing other exercise or satisfying other social

But it is the professionals who suffer most for their art. And with too many musicians chasing too few jobs, most are reluctant to take their problems to management or tions. "Concert schedules are particularly demanding in the UK," says Dr James, "Compared to European orchestras, ours play twice as many concerts but have a quarter of the rehearsal time to get it right. If a musician can't withstand that kind of pressure then they're out."

Often, the anxiety is contagious. Dr James has found instances of a new, dynamic principal joining an orchestra whereupon the rank and file of the same section immediately succumb to musculo-skeletal disorders. "Similarly, we recently found that a group of young sufferers coming to the clinic had the same tutor in common - and he himself had a problem with muscle pain

too," Dr James says. Patients contacting the BPAMT or attending the performing arts clinic are assured confidentiality and will benefit from more specialised knowledge and sympathy than a GP can offer. But Scott says that increasingly health authorities are refusing to pay for extra-con-tractual referrals to special clinics

like Dr James's and the trust is examining ways of overcoming this reluctance. Classical musicians employed by the major orchestras have a better chance of specialist

consultation though. The trust, backed by the Musicians Union, has recruited a network of 35 volunteer doctors and now each orchestra has two specialising doctors assigned to it. The trust also takes the lead in promoting better workplace conditions. Noise induced deafness among

brass players and percussionists is a prime concern, especially in the confines of a pit orchestra. The trust is undertaking research work to design an ear protector which excludes damaging frequencies without impairing the ability to

But it is stress, and its physiological manifestations, which beset the majority of professional musicians at some time. "The pyschological pressures faced by professional musicians have become enormous."

says Dr Kenneth Lewis, who is attached to the LSO on a voluntary hasis. More secure than most, the LSO is a happy orchestra he says, but still he attends to a string of stress-related problems - from asthma and difficulties with circular breathing to fingers made slippery with anxious perspiration. The question all musicians ask themselves each night, is 'will this be my last job?" Dr Lewis says, "and that affects both their playing and their health."

Theatre/Martin Hoyle It's a mad, mad, Ken Campbell

mad world, my masters. Especially when Ken Campbell discourses on it. and ranges from drinking other people's spinal fluid with vodka to get their thoughts ("like getting other people's snaps from Boots") to quantum physics. To judge from Mysterious Bruises at the Almeida Theatre, Islington, his scavengings through the mind's lit-ter-clogged laybys are, if anything, madder than ever. But there is a new gentleness about him. Bursts of manic gargoyle glee are undercut by almost embarrassed throwaway reticence which is just as funny. As ever, the apparent red herrings, wild geese and shaggy dogs that roam the moonstruck prairie of his intellect are logically linked and neatly come full circle, through whatever hoop, U-turn or lateral flea-leap on to another juicy subject he casually urges them. Campbell has stepped in, follow-

ing the premature demise of the Almeida's previous production. As he gracefully puts it, the theatre rang him to say: "the bollocks we've got on at the moment have been rumbled." He speaks about theatre the art, the craft, the bollocks with brief homage to "tubby and caring" Peter Brook ("we miss Jess Yates, don't we?", he adds, wickedly inconsequential); a talking dog that told "an utterly constructed narrative of the horror genre" sounding like Sir Herbert Beerbohm-Tree; and, disregarding theatrical superstition, dwells on productions of Macbeth he has known. In Stoke-on-Trent (1964) he played the Porter as if suddenly aware of the audience, with an amazement reserved for time travellers, He adopted a Method approach for Colchester (1967), deducing from clues in the was a flatulent dwarf, probably opting for bonsai disguise in Burnham Wood. I fear he may never be a company man as the term is understood in the Berliner Ensemble.

But the two hours traffic jam of his stage begins and ends with science. Ejaculating polyfilla canisters are to this set what candelabra were to Liberace's. Campbell thoughtfully provides the front row with covering in case the spouting substance gets into the spectators' pores before hammering a nail into the "disenfranchised self" of the aerosol and letting it gush. This leads easily - as easily as anything is led in a Campbell ramble - to the space-time continuum. He ends the show with physics, his nonsense firmly researched, unimpeachable authorities quoted (and mocked). 'I'm not making this up, you know," as comedian Anna Russell would reproachfully remark when outlining the plot of Wagner's Ring. Mad world, mad kines, mad composition; and, thankfully, maddest of all is Ken Campbell.





BERLIN

Philharmonie Carlos Kleiber conducts the Berlin Philharmonic Orchestra in the Federal President's concert tomorrow, featuring works by Beethoven, Mozart and Brahms. Sergiu Commissiona conducts the Berlin Radio Orchestra on Wed in works by Berlioz, Saint-Saens and Mahler, with cello sololst Ofra Harnoy and soprano Edith Wiens. Rafael Frühbeck de Burgos conducts the Orchestra of the Deutsche Oper on Thurs in Berg and Mahler, with mezzo Doris Soffel. il Giardino Armonico plays a Bach programme on Sat, and the Akademie für Alte Musik Berlin joins forces with the RIAS Chamber Chorus on Sun for Bach's B minor Mass (2548 8132) Steatsoper unter den Linden Anna Tornowa-Sintow sings the Countess in tonight's performance of Jonathan Miller's 1993 production of Capriccio. Repertory also includes Ariadne auf Naxos, Il barbiere di Siviglia and the Berghaus production of Pelleas at Mélisanda A new

taging of the Nureyev production of Glazunov's Raymonda opens next Mon. The season runs till July 13 (200 4762/2035 4494) Deutsche Oper This week's repertory consists of Don Carlo, a Bartok and Schoenberg double-bill, La boheme and a contemporary dance programme featuring works by three New York choreographers. Götz Friedrich gives a foyer talk tonight about the company's work. The season runs HI July 10 (341 0249) Schiller Theater Crazy for You, the musical based on Gershwin's Girl Crazy, runs daily except Mon till the end of July (2548 9241)

■ NEW YORK

THEATRE Three Tall Women: a moving, poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She. Jordan Baker and the droll and delightful Marian Seldes represent three generations of women trying to sort out their pasts (Promenade, Broadway at 76th St. 239 6200)

 Angels in America: Tony Kushner's two-part epic conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestrolika, played on separate evenings (Walte Kerr, 219 West 48th St, 239 6200) Four Dogs and a Bone: John Patrick Shanley's satiric cornedy about movie-making and power plays in Hollywood (Lucille Lortel, 121 Christopher St, 924 8782) Laughter on the 23rd Floor: Neil Simon's 27th Broadway play.

about a group of writers trying to come up with a new show, is one of his finest comic efforts. Directed by Jerry Zaks (Richard Rodgers, 226 West 46th St. 307 4100)

 The Sisters Rosensweig: Wendy Wasserstein's most successful play to date, a comedy with serious undertones about the reunion in London of three American Jewish 47th St. 239 6200)

 An Inspector Calls: J.B. Priestley's 1947 mystery thriller in an award-wirming production from Britain's National Theatre, directed by Stephen Daldry (Royale, 242 West 45th St, 239 6200) Carousel: Nicholas Hytner's bold, beautiful National Theatre

production from London launches

Rodgers and Hammerstein towards the 21st century (Vivian Beaumont, Lincoln Center, 239 6200) Tommy: a musical written and composed by Pete Townshend, based on the 1969 rock opera by The Who, about a withdrawn young boy who becomes a Pinball Wizard (St James, 246 West 44th St, 239

 Damn Yankees: the big musical hit of 1955 is back in its first Broadway revival, with Victor Garber as the Devil and Bebe Neuwirth as Lola. The director, Jack O'Brien, has extensively re-written the story, about a baseball fan who sells his soul to rescue his favourite team from a losing season (Marquis, Broadway at 45th St, 307 4100) Crazy for You: the musical based on Gershwin's Girl Crazy recently passed its second

anniversary on Broadway. A

entertainment is Susan Stroman's

highlight of this glitzy

A CONTROL OF THE PROPERTY OF T

choreography (Shubert, 225 West 44th St, 239 6200) DANCE/MUSIC

Avery Fisher Hall The Lincoln Center's summer concert series. the Mostly Mozart Festival, opens on July 5 with a programme featuring baritone Thomas Hampson in Mozart arias and Shura Cherkassky playing Chopin, The festival runs till Aug 20 (875 5030) Metropolitan Opera The Royal Ballet opens a two-week season on July 6 with Anthony Dowell's production of The Sleeping Beauty. The season also features MacMillan's Mayerling and a mixed bill including Ashton's A Month in the Country. This is the Royal Bailet's first visit to New York since

1991 (362 6000) JAZZ/CARARET

 Highlights of the JVC jezz lestival this week include Dick Hyman tonight at the Town Hall the Carnegle Hall Jazz Band and Lincoln Center Jazz Orchestra tomorrow at Avery Fisher Hall, planists Roland Hanna and Barry Harris at the Town Hall on Wed, and a free late afternoon concert at Bryant Park on Thurs featuring Mingus Big Band, Chico Freeman quintet, Jay Hoggard band and the trics of two terrific young planists, Cyrus Chestnut and Jacky Terrasson. Guest artists at Carnegie Hall and Avery Fisher Hall over the weekend include Gerry Mulligan, Gilberto Gil, Caetano Veloso, Tito Puente, David Sanborn and Ronny Jordan (Avery Fisher Hall: 875 5030. Carnegie Hall: 247 7800) Sensuous R&B singer Cassandra Wilson works her blue made on Wed and Thurs at Bottom

Line. 15 West 4th St (228 6300) Singer and planist Kurt Wieting begins a two-month engagement tonight at Cartyle Hotel, Madison Ave at 76th St (744 1600)

PARIS

DANCE Paris Opera Ballet has a programme of 20th century classics tonight and tomorrow at Palais Garnier, comprising works by Antony Tudor, Paul Taylor and Kenneth MacMillan. This is followed on Sat by the San Francisco Ballet: its week-long residency features two mixed bills, including choreographies by Balanchine, Mark Morris, Heigi Tomasson and Agnes de Mille (4742 5371) The Nureyev production of La Bayadère is revived on Wed for a two-week run at the Bastille (4473

Compagnie Philippe Genty Is in residence at Théâtre de la Ville till Thurs (4274 2277)

OPERA Bastille Carmen runs till July 23 with changing casts including Marta Senn/Kathryn Harries/Beatrice Uria-Monzon in the title role, Sergey Larin/Alberto Cupido/Daniel Gaivez-Vallejo as Don José and Alain Vernhes/Gino Quilico/Harry Peeters as Escamillo. Jose-Luis Gomez's staging is conducted by Serge Baudo/Cyril Diederich. This week's performances are tomorrow and Fri (4473 1300) Opèra Comique Roberto Alsona and Nuccia Focile head the cast in Gounad's Roméo et Juliette, conducted by Michel Plasson and

staged by Nicolas Joel. This week's

performances are tomorrow, Thurs and Sat, with three further performances next week (4286 8883) Châtelet A new production of Wagner's Ring has just opened, in a staging by Pierre Strosser conducted by Jeffrey Tate. The cast is headed by Robert Hale, Sabine Hass and Karen Huffstodt. There are performances of Das Rheingold on Wed and Sat, and Die Walküre on Thurs and Sun. The final two parts of the cycle will be staged in October (4028 2840)

CONCERTS Salle Pleyel Tomorrow: Leif Segerstam conducts Orchestre de Paris in works by Koechlin, Ravel, Aubert and Dukas, with plano soloist Claude Helffer (4561 0630) Saint-Denis Tomorrow (Basilique): Jean-Claude Casadesus conducts Orchestre National de Lille in a Mahler programme, with vocal soloists José van Dam and Veronica Cangemi, Thurs: Marek Janowski conducts Orchestre Philharmonique de Radio France in a Schubert programme, with vocal soloists including Lillian Watson, Nathalie Stutzmann and François Roux. Fri (Légion d'Honneur): Des Des Bridgewater and Harlem Boys Choir

JAZZ/CABARET Janis Carter, the versatile American singer and comedienne, opens a two-week residency tomorrow at Lionel Hampton Jazz Club. Music from 10.30 pm to 2 am (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

(4813 1212)

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Thursday: Festivals guide.

Friday: Exhibitions Guide.

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TUESDAY Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY NBC/Super Channel: FT Reports 1230

FRIDAY NBC/Super Channel: FT Reports 1230 Sky News: FT Reports 0230, 2030

SUNDAY NBC/Super Channel: FT Reports 2230 Sky News: FY Reports 0430,

Why the dollar may be oversold

resident Bill Clinton is right to argue there is something puzzling about the degree of downward pressure on the dollar. Currency crises usually erupt when an exchange rate has been held at an artificially high level for too long or when the economic outlook is clouded by some grave imbalance. Neither condition applies in the US today, so the dollar may prove more resilient than some "gurus" expect. By most objective criteria

the dollar is undervalued rather than overvalued, absurdly so in the case of the yen. And, as Mr Clinton has stressed, the economic fundamentals are mostly encourage ing. The US economy has been growing since early 1991. Businesses are expanding industrial capacity: gross fixed investment rose 12 per cent in the year to the first quarter. Productivity growth and corpo-rate profitability are impressive. And, although the prices of some commodities are rising, upward pressure on wages and consumer prices remains quite subdued.

Some investors believe that growth prospects are better still in Europe and Japan, which are only just emerging from recession. But recovery in these regions could easily falter (as happened in the early stages of the US upturn), especially if the yen and D-mark soar to ridiculous levels. Currency volatility aside, it is rash to assume that returns on investment will exceed those in the US, where growth is so

Pundits in small, open economies such as the UK under-estimate the US's ability to ride currency storms. The "failure" of concerted intervention on Friday has not created a national crisis, as it might have done in Britain. The front pages of the Sunday Washington Post and New York Times contained no reference to the dollar. This reflects the instinctive view of most Americans that their economic futures will be determined mainly by their own efforts in this hemisphere. There is some concern that a falling dollar may push up long bond vields and hence mortgage rates. But most observers here are guessing



MICHAEL PROWSE

that, with yields already 4-5 per cent in real terms, the bulk of the adjustment has already

Trade (the average of imports and exports) accounts for only about 11 per of US national income, and much of that is with Canada and Mexico, nations whose currencles are closely linked to the dollar. The US thus thinks and acts much as the European Union would do if it ever manages to create a single cur-rency. Much of the point of a single currency is to prevent Europe being buffeted by adverse international trends: the US has been in that happy

But surely the US is vulnerable because it is a net international debtor, having run a trade deficit for many years? This is a small problem. The net debt is still tiny relative to the size of the US economy. The trade deficit has expanded sharply since last year but this mainly reflects growth differentials among the leading economies. This year it will reach only 2 per cent of GDP, far below the 3.5 per cent peak hit in the mid-1960s, and quite manageable in a world of mobile capital. Since US exports are likely to grow rapidly as growth accelerates in Japan and Europe, the deficit

may shrink next year. Markets should also note that the Clinton administration is, finally, clarifying its policy on the dollar. Until recently traders assumed that if talks on opening the Japanese market were going badly, the US would favour a stronger yen as an alternative way of squeezing the Japanese. Sometimes senior officials directly encouraged such an interpretation: "I'd like to see a stronger yen," Mr Lloyd Bentsen, the Treasury Secretary, told reporters at an infamous meeting at the National Press Club

That kind of rash talk is now history. The yen has appreciated 18 per cent since Mr Clinton took office – enough for anybody. Accordingly, in early May, Mr Bentsen said he saw "no advantage in an undervalued currency". Late on Friday. afternoon, a senior Treasury official (no prizes for guessing whom) took the new policy one step further. The Clinton administration had intervened on Friday, he said, "to demonstrate that it prefers a stronger dollar". Underlining the point, he added: "It is our view and the G7's that further appreciation of the mark and yen would be counter productive for global recovery." It is safe ssume that Mr Bentsen will

also soon speak of "preferring" a stronger dollar. The US view is that Friday's intervention did not fail because it was intended to send a message rather than dramatically alter exchange rates. The message is that the US and its Group of Seven partners do not want the dollar to fall further. Markets, of coffise, are at liberty to ignore

this advice. But if they do, US officials are unlikely to panic. The US lived through an extraordinary appreciation of the dollar in the mid-1980s; it is equally capable of handling an erratic depreciation. Indeed some offi-cials probably regard depreciation as the lesser evil as it would accelerate the shift in resources from services to

The Federal Reserve is less worried about dollar depreciation today than in the "Carter crisis" of late 1970s because growth is solid and inflation is under much better control. There is little chance that the Fed will jack up interest rates sharply in order to "defend" the currency. That would simply play into the hands of specplators who would never be satisfied. It is likely, instead, to focus mainly on the outlook for US inflation and growth. Rates will rise further, but as part of the measured tightening of monetary policy underway for

arely has there been a week in Hong Kong which promises so Britain and China may be close to striking two agreements -on the financing of the colo-ny's new airport and on the use of military land after Chinese sovereignty resumes in 1997. These are vital to the wel-

inhabitants. In addition, on Wednesda Hong Kong's Legislative Council (LegCo) debates Governor Chris Patten's plans to increase democracy ahead of the transfer and will settle, finally, whether to accept his proposals for the last elections under British rule, or adopt a

fare of the colony and its 6m

watered-down version. The juxtaposition of these events must be encouraging for Mr Patten. An agreement on the airport used to be thought by his critics to depend on Britain capitulating on his political reform pack-age. Yet China, which has fought hard against the governor's proposals, seems to have confounded the experts and separated the political and economic issues. This apparent change of

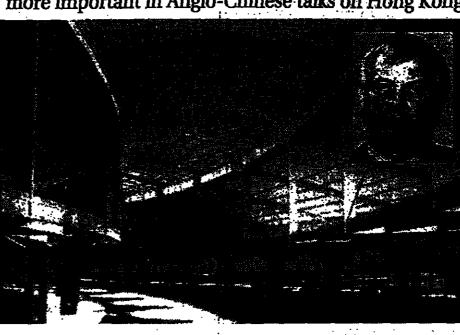
heart - though few would be more optimistic until the airport and military land deals are actually agreed - suggests that in the past Britain may have misjudged Beijing's strat-egy towards Hong Kong. It would be foolish to believe that all problems dividing the UK and China will be miraculously solved if agreements over air port finance and military land are struck. But the official advice British ministers were used to receiving sugge that such deals would have heen impossible: ministers were told that China would not subordinate political interests to Hong Kong's economic con-

Beijing's leaders have shown themselves to be much more pragmatic than these advise expected. They realise that in three years they will take charge of one of the most highly developed economies which produces the equivalent of a quarter of China's output in a territory just 0.01 per cent of the mainland's land mass. Beijing knows that managing the transition will be considerably more difficult without Britain's co-operation.

It is not surprising, there-fore, that China should want to developed countries. see the completion of two large, complex civil engineering tasks: the construction of a new international airport at Chek Lap Kok to replace Hong Kong's crowded Kai Tak air-

Pragmatism in a rocky relationship

Simon Holberton says practicalities are becoming more important in Anglo-Chinese talks on Hong Kong



port: and a naval base on Stonecutters Island, in Victoria Harbour whose construction depends on a deal over the future use of military land.

Beijing's new enthus ent has no doubt been elped by the concessions it has won from Britain. On the airport project, Bei jing has, during two years of negotiations, persuaded the Hong Kong government to

increase the equity it will invest in the HK\$83.3bn airport and connecting railway project from HK\$16.4bn to HK\$60.3bn The remain portion, to be financed by long term borrowing, has been cut by the corresponding amount to about HK\$23bn. China has been determined to minimise the amount of public debt it will inherit in 1997 - so the project will be financed with a far higher proportion of equity than would be considered financially prudent in most

After a bilateral meeting on Friday, the British and Chinese sides instructed officials to draft a detailed agreement. The main sticking point is the form of words China will use to reas-

sure bankers that lending to the airport and railway corporations will be secure. There is optimism that agreement can be reached though ominously it is the same obstacle that Britain failed to surmount in secret talks with China three years ago during an earlier attempt to secure the airport's

The gains Beijing has made in its talks with Britain over

Beijing knows the transition will be more difficult without Britain's co-operation

military land have not been made as public. But China is believed to have forced the British into accepting that a larger portion of current military sites should be transfered to the People's Liberation Army, rather than handed over to the Hong Kong government

In addition, the Hong Kong government will build a 400 aguare metre port off Stonecut-

ters island for the PLA navy The stalling point has been a

apparently technical point: whether Britain will agree to act as a "guarantor" of the project in the extremely unlikely event of Legco refus ing to vote the approximately HK\$3.5bn needed to build the new base and refurbish other military sites that China will inherit. British and Chinese officials meet again today for further discussions. The result of a long negotiating session over the weekend suggested the Chinese may have drawn back from an early settlement.

With their sense of history. the Chinese may anyway wish to postpone a deal until at least Wednesday when the Black Watch regiment of the British army "beats the retreat" for the last time in Hong Kong, marking the end of almost 150 years in which at least one British regiment has been sta-tioned in the colony.

That could mean a deal on military land coinciding with the LegCo vote on Mr Patten's democracy legislation. His plans would make Legco more representative of the colony's population. Like the airport

and defence territory deals, the and defence territory deals, the outcome of the vote hangs in the balance. Mr Patten's advisers calculated over the weekend that they had only 26 certain votes, out of a Legco membership of 60, for his bill although they are confident three or four other legislators can be persuaded to vote with

the government. But the vote may be determined by the tactics Beijing adopts. The Liberal Party, which has 15 members in LegCo, has been lobbying independent and pro-China mem-bers to support its "middle way" - amendments to Mr Patten's proposals which follow more closely what China is med to want. It suggests for example, that nine new constituencies to be created for the 1995 Legco elections, should be restricted to a total of 122,000 business voters. rather than the 2.3m extra voters who Mr Patten wishes to enfranchise.

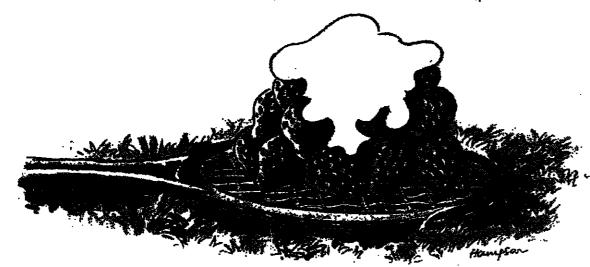
The vote could swing against Mr Patten if the three Legco representatives allied to Beijing side with the Liberal Party rather than abstaining. The signs are that China has yet to

decide its strategy Mr Tsang Yok-sing, chair-man of pro-Beijing Democratic Alliance for the Betterment of Hong Kong, hints members of the Chinese government are divided. "Some believe if we adopt the Liberal Party's pro posals we can have a much smoother transfer of power in 1997," he says. "The 1995 elec tions would fit in better with the Basic Law (Beijing's miniconstitution for the colonyl than Mr Patten's 1992 propos

"But others think that if China takes a positive attitude it could be interpreted that the LegCo decision has validity. If China were to accept LegCo's vote people would also ques-tion the need for Sino-British talks in the first place." So far China has seen LegCo as merely an "advisory body" to a colonial regime

Whatever the result of Wednesday's vote it will mark watershed, finally setting in concrete the way politics will be conducted in the last three years of British rule. While rows over Hong Kong's political development may cloud Anglo-Chinese relations from time to time, they will no lon-ger form a obstacle to the practical business of transfering sovereignty. That bodes well for deals on the airport and military land, even if the conjunction of events this week ultimately proves too much for China to digest at once.

FOR THE FULLEST **IMBLEDO**



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First with the facts

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thinkers

From Mr Edmond Jackson. Sir, If Edward de Bono (Letters, June 23) considers himself a philosopher, it is odd that he castigates Lucy Kellaway's article ("Put on your thinking caps", June 17). I certainly did not feel "nan-

nied" when reading it, indeed, a sense of enlightenment. It was good writing because it succinctly clarified de Bono's latest thinking fashion, with shrewed scepticism.
Surely the essence of philoso

phy is a creative pursuit of new ideas - which are then criticised vigorously, to alter our very paradigms of thought. In such a contest there is no time for personal pride.

Edward de Bono's reactionary tone could imply that he is more concerned to defend the commercial prospects of his "Six Hats" approach, than genuinely advance understanding. This is not good philosophy. Its best thinkers bave usually been absorbed in ideas for their own sake, not marketing

A reason for reading the FT is articles which inform and challenge us to think - without a need for gurus. Hats off to Lucy Kellaway! Edmond Jackson,

Butlers Dene Road, Surrey CR3 7HH

Hats off to | Council must be more open

From David Martin MEP. Sir, I sympathise with David Gardener's frustration in his attempt to gain selected voting records of the 12 member states of the European Union ("EU unable to provide ministers' voting record". June 22). The Council's new code on public access to information does not address the issue it was established to deal with; public alienation from the process of European Union. The public are rightly disenchanted

dure" whereby the Commission proposals require the approval both of the Council and of the European parliament to become law, the European parliament was happy to debate and vote on these issues in public. Not so the Council. Whereas no one is expecting

the new "codecision proce-

that all executive discussion should take place in public, I to meet in public when adopting European legislation. The Council should also publish the results of all its votes. The 340m people in whose name these laws are being made deserve nothing less. David Martin,

believe that one of the new

measures brought forward at the review of the Treaties in

1996 should be for the Council

Midlothian HE22 1DS

Rare opportunity for WTO to seize

From Mr Harry L Freeman.
Sir, You reported that the
Mexican foreign ministry is about the possibility of President Salinas getting the top job at the incipient World Trade organisation (WTO) ("Salinas may join race to head WTO", June 10). On June 15 you reported that Germany has made a formal bid for the WTO to move to Bonn ("Bonn offered as base for WTO").

What is important is that the WTO be launched as a new and powerful organisation, albeit with roots in the General Agreement on Tariffs and Trade, but not merely as a revitalised or remodeled Gatt. WTO will commence with more than 120 countries and maintain and enhance the mul-tilateral trading system. Much can be learned from the Gatt experience over the past decades but that must be balanced against the fact and perception that the WTO is a vasily different entity, in mem-bership, in powers, and in responsibilities.

The idea of having a former head of state of a major devel-oping country which literally bet the future of its economy on throwing open markets, joining Gatt, and welcoming import competition and foreign investments is a rare opportu-nity which should be seized. This is no reflection on the worth of the amounced candidates who are competent. However, the Salinas candidacy is an opportunity to be seized to re-enforce the point that the WTO is both new and is to be one of the world's most

important organisations. As for moving to Bonn, here again there is much to be said for a new location denoting a new organisation. The German bid should be seen in that light and weighed against the obvious conveniences of remaining in Geneva where so many countries have joint missions to the WTO, WIPO, and UNCTAD. It inevitably raises the question of whether the world needs all of these overlapping organisations if the WTO becomes near universal in its membership.

Harry I, Freeman, The Freeman Company, 4708 Dorset Aven

Rail men made outdated pay structure point seven years ago RMT's objections to the

From Mr James Knapp.
Sir, It is ironic that Robert
Taylor should lead his report with a comment from Railtrack chairman Robert Horton complaining about an "outdated pay structure" ("Railtrack takes the route to modernisation", June 22). RMT (NUR)

years ago.

The existing pay structure has developed over decades. BR traditionally preferred to pay low basic rates of pay and build up earnings by overtime, supplements and allowances. This was because it was cheaper to employ labour on this basis.

made this point seven long

Incidentally, Robert Taylor misunderstands some elements in the package. Isolation allowance is paid for isolating current and taking on extra responsibility in abnormal lems, it creates new ones.

working conditions, not for working in an isolated area. But I am surprised that he omits to mention that the original package of measures (including the 5.7 per cent with strings offer) was a productiv-ity deal with a clause commit-ting the union to further productivity measures. The government, with all the ineptness we have now come to expect, managed to blow the deal out of the water, although I believe it met the criteria it seems so keen to defend.

Changes in working prac-tices are not being opposed by RMT, although we have reservations about some elements Railtrack proposes. Job evaluation for example, is not a panacea and our experience in other parts of the industry is that, far from solving prob-

package put by Railtrack at Acas are, first, it does not address the claim and, second, it is a very poor deal for signalling grades. Even if we ignore past productivity it does not recognise new productivity. At very best it means an average of £4 per week

increase in gross earnings. The reality is Railtrack cannot guarantee any increase for any individual because of the way the package has been con-structed. Not only is job evalu-ation difficult to predict, Railtrack admits it is not ready to introduce annualised hours. Juggling existing monies from one pocket to another is not an increase in pay. Furthermore, 30 per cent of signalling grades will be considerably worse off. Mr Taylor asserts that RMT

more resolutely in the past. Does he mean that we should have taken strike action seven years ago as the only way we could have forced the issue? That is a strange argument for the FT to articulate. This dis-pute has to be resolved by

talking to each other. As Mr Taylor reveals, the differences behind the rhetoric are not unbridgeable. If the government leaves negotiators to settle the issues realistically we have already proved a deal is possible. Transport secre-tary, John MacGregor's latest intervention raises questions about his sincerity in seeing this straightforward industrial dispute resolved.

James Knapp, National Union of Rail, Maritime & Transport Workers Unity House, Euston Road, London NW1

FINANCIAL TIMES

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Monday June 27 1994

Europe's Greek farce

The European Union's weekend summit on Corfu was a fiasco from which none of the main protagonists emerges with much credit. Not only did the leaders fail in their main task of deciding on a successor to Mr Jacques Delors as European Commission president; they ended up in a slanging match of a vehemence and pettiness to match the worst Euro-rows of the mid-1980s.

German Chancellor Helmut

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Kohl and French President Francois Mitterrand must bear some of the blame, for attempting to bulldoze through their own candidate for the Commission post without proper prior consultation. Those countries which had misgivings about the way France and Germany handled the process should, in fairness to Mr John Major, now make their position clear and insist on a more genuinely consul-

Even so, Mr Major, emerges as a sorry figure. By vetoing a candidate agreed by all other 11 member states, be has once again cast himself as the spoiler of European politics. Given that he has vowed not to back down and that the Union cannot depart from its unanimity rule for this appointment. he will almost certainly succeed in blocking Mr Jean-Luc Dehaene, Belgium's prime minister. But the price, in terms of a further reduc-tion in Britain's influence and credibility in the EU, will be high. The real mystery is why Mr Major chose to behave this way. In

the weeks before Corfu, it seemed

to Mr Dehaene - a claim that he "represents a tradition of big government and intervention" seems implausible. The Belglan was put forward, not because he has strong ideological views, but for his reputation as a deal-maker.

Mr Major's other argument that he wanted to demonstrate disapproval, widely shared by other member states, for the way in which the decision was being handled - strikes a slightly more resonant chord. But exercising a veto when all others have reached a consensus can scarcely be the most effective way to influence

the subsequent process.
Unfortunately, one is forced to conclude that the veto was no more than an improvised and futile gesture to Tory Eurosceptics - futile since no Commission candidate who would command a consensus on the continent is likely to attract their support, and the party's civil war over Europe can

It falls to Mr Kohl, who takes over the EU presidency this Friday, to pick up the pieces. He has called an emergency summit on July 15, and it seems likely that one or more compromise candidates will be considered. That would be desirable, if only because as Mr Dehaene himself recognises, to press on would be to risk turn-ing a petty personal squabble into a crisis. Then, once the process is concluded, EU leaders need to show that they have learned the

that Britain would accept Mr Work and benefits

The greatest challenge facing the member states of the Organisation for Economic Cooperation and Development is to expand employment opportunities. In most OECD countries, unemployment has become entrenched at unacceptable levels which waste human resources and strain the social fabric. Rolling it back should be

the top priority for governments. Welfare states need to be "re-en-gineered" so that they do not block the creation of jobs. Much of the growth in the labour market is in low-paid, part-time and casual work. Yet welfare states continue to reflect the less flexible working patterns of earlier decades. They are largely designed to support male breadwinners during periods of temporary unemployment.

As a result, benefits are often so high that they discourage the unemployed from taking low-paid work. Any income earned by wives is deducted from the benefits paid to their husbands. And the rates at which benefits are withdrawn as income rises leaves those who take part-time work little or no better off. Welfare benefits thus trap their recipients outside today's more flexible labour markets, rather than helping them

back into work. The OECD Jobs Study, published earlier this month, set out a menu of options for reforming welfare states to promote employment. These included widening the gap between benefit levels and after-tax earnings, linking benefits to participation in programmes for

earnings supplements for low-paid

lessons of Corfu by resolving

never again to select a Commis-

The UK is among the OECD members that have gone furthest in adopting such policies. But much more needs to be done, as a recent study from the Labour party's Commission on Social Justice showed. The bureaucracy involved in the social security system discourages the unemployed from taking up the jobs on offer. Those who take low-paid jobs must endure weeks of financial insecurity before they receive family credit, the in-work income supplement. And the partners of unemployed men cannot take any sort of work without losing most of their earnings in reduced benefits.

Better administration of benefits would help reduce these disincentives. But the benefits system needs to be radically shaken up to support people through periods of partial employment and low-paid work as well as during unemployment. The aim should be to ensure that those who take any form of

work enjoy higher incomes.

The UK government's decision to introduce a new jobseeker's allowance for the unemployed from 1996 provides an opportunity for such re-engineering. Yet as a result of a turf war between min-isters, responsibility for the new allowance is to be divided between two government agencies. This classic Whitehall compromise complemented by the existing three-way split of training responsibilities - is a missed opportunity for which the unemployed will getting people back into work and pay the price.

Smashing bargain

reasonably expect taxpayers to spend on machines to investigate the innermost secrets of nature the fundamental particles and forces that make up the universe? The US Congress decided last October that \$11bn was too much; it cancelled the all-American Superconducting Super Collider under construction in Texas.

Now, an irresistible bargain is on offer: \$1.8bn for a smaller atomsmasher to be funded by the entire industrialised world. That is the price tag on the Large Had-ron Collider (LHC) which Cern, the European particle physics laboratory, proposes to build in a 27 kilometre tunnel beneath the Jura foothills near Geneva.

Unfortunately the Cern council failed to give full approval to the project last Friday. In a typical Euro-wrangle, two of the 19 Cern members, Germany and the UK, blocked agreement in an attempt to extract a larger contribution from the host countries, France and Switzerland. But all delegates seemed confident that a compromise could be reached later this

Europe must agree as soon as possible, so that Cern can take advantage of the SSC's demise to make the LHC a truly international project. American physicists are particularly keen to negotiate entry, so as to make use of the scientific skills and experience that had been devoted to the Texan project. The level of US contribution suggested in informal machine discussions - \$400m, including stand it.

How much can scientists equipment and cash – would sub-reasonably expect taxpayers to stantially improve the LHC's performance.

Once the US was involved, it would not be difficult for Cern to bring in Japan, Canada, Russia, India and other non-European nations that have expressed interest in the LHC. It would then become the world's first global scientific enterprise and a model for future collaboration in "big science" projects that are beyond the means of even the richest country on its own. The next such facility might be ITER, the proposed international experiment in fusion

The LHC will not match the planned power of the 87km Texan machine. But it will still smash together atomic particles with enough energy to recreate a microcosm of the new-born universe a millionth of a millionth of

a second after the Big Bang. In that primordial fireball, scientists believe the "Higgs boson" particle held the secret of why some things came to weigh so much more than others. The atom smasher may recreate this and other particles predicted by theory

but never yet observed. These may seem abstruse subjects - and physicists certainly need to make more effort to explain their importance to nonscientists. But almost everyone is interested in the origins and future of our universe. So the world should not hesitate to spend a couple of billion dollars on a machine that helps us to under-

The second secon

apan's partners could be forgiven for feeling some alarm that the world's second largest economy has just dumped its fifth prime minister in five

The forced resignation of Mr Tsutomu Hata, one of Japan's more competent leaders, after just 59 days in office, has wider international repercussions than the departure of his predecessor, Mr Morihiro Hosokawa.

The downfall of Mr Hata, a victim

of Japan's latest series of political brawls, makes it possible that Japan will, for the second year running, send a lame duck head of government to next month's Group of Seven summit in Naples. It is a symbol of the new instability of what used to be one of the world's most stable political systems.

Unless Japan's politicians achieve

a miracle and pull together a strong coalition in the next few days, who-ever represents Japan at the G7 will ack the authority to deliver a contribution to solving one of the world's biggest economic difficulties, the recent plunge of the dollar to record levels against the yen. Whoever holds the precarious top job in Tokyo - a caretaker Mr Hata or his successor - will have little chance of obtaining a pre-summit resolution of the dispute with the US over how to curb the huge Japa-

nese trade surplus. This increases the risk of another surge of the yen on the foreign exchanges this morning, which would be an unwelcome blow to Japan's fragile recovery and, as a equence, threaten the economic

health of its trade partners.

Already, Mr Koji Kakizawa, foreign minister in the outgoing government, has had to cancel a weekend meeting with Mr Mickey Kantor, the US trade representative, because of the axe hanging over his short ministerial career. Japanese trade negotiators report that it was becoming hard to make progress in talks with the US last week, because of political indecision in

It is cold comfort to Japan's partners that the downfall of Mr Hata's government, the shortest-lived since 1945, was widely expected. The weekend's events were the latest stage in a chain reaction started by a corruption scandal which precipitated last summer's downfall of the Liberal Democratic Party, after 38

Yet wider forces are also at work, suggesting that Japan's partners should adjust to the fact that it may be only at the start of several years of wobbly coalition governments. The formerly stable structure of Japanese power has become unbalanced, argues Mr Kiyoaki Kikuchi, a former ambassador to the UN who is now senior adviser to Matsushita, Japan's largest consumer electron-

Tokyo adjusts to tempestuous times

William Dawkins says the downfall of Tsutomu Hata has far reaching implications for Japan and its partners

ics company. "The collapse of the triangle of politics, business and the bureaucracy is greater than foreign observers might think," he said in an interview last week.

"Now that one dominant party has ceased to exist, business no longer knows where to go for favours and bureaucrats feel there is no power centre...The whole cement of Japanese society has collapsed. It's very real." Japan's influential bureaucracy

has attempted to fill some of the

vacuum created by the weak politi-

cal leadership - and its influence may rise as a result of the latest

government collanse. But not even

political agenda. They would hate to be seen trying to do so, indeing by their hypersensitivity to critim by the US and Japanese press Mr Hata's departure has an air of tragi-comedy, which illustrates the unbalanced state of the nation described by Mr Kikuchi. His policies and personality are popular and all mainstream politicians agree that Japan needs a stable government now more than ever, to tackle its domestic economic problems, the rise of the yen and the North Korean nuclear threat. Mr Hata is untainted by allegations of corruption, unlike his predecessor Mr Hosokawa, brought down in April by LDP allegations of finan-cial impropriety. Mr Hata is, how-

ever, tainted by his perceived close-

ness to Mr Ichiro Ozawa, the

government's brilliant but unpopu-

lar backroom strategist.

But for better or worse, the end of Mr Hata's rein was inevitable. The LDP and Social Democratic Party, the second largest opposition group
- both criticised for irresponsible behaviour in the Japanese press yesterday - had repeatedly warned they would launch a no-confidence motion as soon as parliament had passed this year's budget. The LDP saw a chance to return to power, while the SDP was partly motivated by revenge: the formation of a centre right bloc in the governing coalition caused the SDP to walk out of the Hata government, depriving it of a majority, just after it was

formed in April. True to its word, the LDP swung rifice himself and leave it up to the into attack straight after the budget opposition to form a new govern-



cleared Parliament last Thursday. delayed by three months because of the wranglings leading up to Mr Hosokawa's departure. It took less than two days, until Saturday morning, for Mr Hata to discover the SDP was asking an impossible price to come back into the coalition. It wanted Mr Hata's head, plus a watering down of the tax reform plans eagerly hoped for by G7 members at the July 8 summit to stimulate Japan's economy.

After a 10-hour meeting with Mr Ozawa, a pale and exhausted looking Mr Hata announced on television that he would step down. Japanese business leaders were relieved that Mr Hata chose to sacment, rather than fight it out in a general election. "That was the best decision Mr Hata could make," said Mr Shoichiro Toyoda, chairman of the Keidanren economic federation. The ensuing one-month election campaign would have paralysed economic policy, worsening the existing upheavals on the foreign exchanges when the yen's recent rise already threatens a recovery in corporate profits. That, said Mr Hiroshi Saito, chairman of Nippon Steel, would have been the worst scenario for Japan.

A majority of politicians agree that now is not the time for an election, as shown by a petition signed 10 days ago by 306 of the 511 members of the lower house of Parliament. They share Mr Saito's wor-

ries. Just as important, political funds are low after last year's gen-eral election and a judicial crack-

down on corruption. An election would have also delayed, maybe even prevented, plans to introduce a more stable and representative political system, due to be ready by the autumn. The political reform scheme, supported by a powerful younger generation of politicians, but strongly opposed by the old guard, would encourage parties to win votes with policy ideas rather than favours. It marks a decisive push against the old-style backroom deal making that was taking place in Tokyo at the weekend, in an attempt to form a new

he four bills needed to regulate political fundraising and introduce a mix of single seat contional representation to replace Japan's unique multi-seat districts, passed parliament in January. An independent panel is now at work on the final stage, drawing up new constituencies, which could be in place by the autumn, unless an early general election under the old

The shape of the new order struggling to emerge from the chaos depends on whether Japan can form a government able to stay in office until the new electoral system is in place. By yesterday afternoon, the signs were that another unstable coalition could emerge in the next few days.

Leaders of the LDP, New Harbinger Party, a centre-left LDP splinter group and the SDP said they might form an alliance, which would have a roughly 40-seat majority. This would be a curious turn of events, since the LDP and SDP were respectively in government and opposition for nearly four decades until last year. Such a coalition would be just as wobbly as the previous two, since the SDP's policies are even more distant from the LDP than from Mr Hata's alliance.

Mr Hata's supporters, meanwhile, hinted that his resignation was a mere tactical retreat and floated the idea of a new coalition with reform-LDP. In theory he could become prime minister again, following the example of former prime minister Mr Ichiro Hatoyama, who resigned and achieved instant reincarnation

Political observers believe several general elections, under the new system, will be needed before a stable two or three party balance emerges from the present ever shifting web of alliances between the record 11 parties represented in the lower house of parliament. Until then, expect the unexpected from

Design for an environmental agency



PERSONAL lighted a central

VIEW tension at the heart of the government's environmental policy. Having boldly committed the Conservative government to addressing the environmental agenda in 1988, Mrs Thatcher's government failed to resolve the problem of who should pay the bill.

Ofgas's director general, Ms Clare Spottiswoode, rightly pointed out to the environment select committee that it was not her job to raise taxation from gas consumers to pay for energy efficiency measures: tax, and therefore environmental policy, was the government's job, she said. Such problems are not confined to

gas. Ian Byatt, director general of Ofwat, the water industry regulator, sees his job as being to curb the price escalator in water bills. In a politically brilliant campaign, he has out-smarted the water quality regulators, particularly the

The recent row National Rivers Authority, and surrounding Ofgas, the UK gas industry National Rivers Authority, and surrounding Ofgas, the UK gas industry National Rivers Authority, and surrounding Ofgas, the UK gas industry National Rivers Authority, and its practical effect will depend upon its design and the purposes to his emphasis on the costs (but not which it is put. Initial steps have activities, and adoption of a more that government funding for envi-

problem: the institutional separation of environmental and economic regulation has left the halance heavily biased against the former. For the utilities - which are at the centre of environmental pollution the costs of environmental cleanups conflict with the objective of holding down consumers' bills.

Fortunately, the government has a good opportunity to sort out the current muddle. One commitment made as a result of Mrs Thatcher's initiative, included in the 1990 White Paper, This Common Inheritance, is the creation of a single environmental agency, to bring together the various strands of environmental policy under a single umbrella to promote integrated pol-lution control. That commitment is finally coming to fruition: the deregulation bill currently going through parliament paves the way. ahead of primary legislation.

However good the idea in theory,

regulator, over the benefits) of the water industry's funding for The Energy Saving Trust has high.

The problem the indicates that government funding for envitors been dogged by Whitehall infighting, and a battle over jobs and functions between the pollution regulation.

The problem the indicates that government funding for envitors been dogged by Whitehall infighting, and a battle over jobs and functions between the pollution regulation.

The problem the indicates activities, and adoption of a more that government funding for envitors been dogged by Whitehall infighting, and a battle over jobs and functions between the pollution regulation. tors and bodies with pollution

responsibilities. The real issue, however, is not about the precise institutional jigsaw. It is about the new agency's

Fortunately, the government has a good opportunity to sort out the current muddle

rationale: what is it for? To the traditional environmental regulators, the environment agency is effectively a "gathered fields" exercise, creating an umbrella under which technical regulation by experts will be co-ordinated. It is an institutional tidying-up exercise. To critics, however, the agency provides the opportunity for thoroughgoing reforms of environmental pol-

Observer

NRA through separation of flood-defence from water quality regulation, integration of cost-benefit analysis into the current techniques-driven rules, and introduction of pollution

charges and permits. The arguments for an environment agency based upon sound economic principles go beyond institu-tional purity. They offer real hope for resolving many current impasses. First, the introduction of cost-benefit analysis would tackle head-on issues raised by Ms Spottiswoode and Mr Byatt. Cost-benefit analysis would help identify whether, for example, energy efficiency schemes were economic in the wider sense, once pollution had

Broad attacks on environmental concerns by regulators would no longer be so crudely effective. Second environmental charges would raise revenue. While purists

been properly incorporated, rather

than on merely private calculations.

tial. Charges are the mechanism.

An environmental agency, soundly based, with a clear answer to those who focus only on the costs and with a system of pollution charges to support it, is within the government's grasp. But if traditionalists stick to their conventional tools, if the Treasury stands in the way of pollution charges on grounds of its unique responsibilities, and if utility regulators are allowed pre-eminence of costs over benefits, then the new agency may prove not only a missed opportunity, but an expensive exercise in rearranging the institutional jig-

Dieter Helm

The author is fellow, New College Oxford, and director, Oxford Economic Research Associates

heavily-indebted hotel group were

Taxing times in Zurich

■ When last year Switzerland finally introduced a value added tax, the Swiss government naturally took it for granted that

tiny Liechtenstein would join in. After all, the postage-stamp principality has contentedly co-existed in a customs and currency union with Switzerland since 1923. It also allows the Swiss finance ministry to collect the existing turnover tax on goods on

But the mouse has squeaked 'enough'. As a fully-fledged member of the United Nations and the European Economic Area -Switzerland is neither – Liechtenstein feels it is time it collected its own taxes. Is this a canny means of slipping in some VAT loopholes, tempting business

away from Zurich? Not at all. "We have said our VAT will be the same so there will be no competitive advantage. We think we are a sufficiently trustworthy partner for Switzerland," opines a

Liechtenstein diplomat. In other words: do not even think of putting your armoured bicycles on our lawn.

Gold digger ■ British inventors, arise - you

the same of the sa

have nothing to lose but your

overdrafts.

Sir Anthony Bamford, chairman of JCB - manufacturer of the ubiquitous vellow earth-digger is considering offering venture capital to assist British inventors and entrepreneurs who need backing for practical, innovative projects in design and engineering. Sir Anthony, a champion of all things British, will also plough in the considerable back-up skills of his company in marketing and distribution. He says there is a nucleus of knowledge and skill -and a modest pot of gold - at JCB. All of which might just set a young British inventor on the road to success - so emulating 'Mr JCB,'

Crunched gears

his father Joe Bamford.

■ And now, the end of the road for the car that made a Lada feel luxurious - the Zaporozhets, the box that mobilised Soviet citizenry. The last rolls through the factory gates on Thursday, 34 years after Nikita Khrushchev, who called it the "tin can," first gave the go-ahead for its mass production

in the Ukraine. Viktor Suzalenko, chief of research at the plant is more polite, describing it as a "no-frills car," adding that "style or how much fuel it drank was not an issue when it was designed. The key question was whether it could cope with the rotten roads in the Soviet



'I'll walk you part of the way home and then you're on your own, Mr Unsworth'

Foreign competition and inflation have been its undoing. In 1960 the basic model cost 20 times average monthly pay, but today it is 87 times the typical Ukrainian monthly salary, equivalent to \$870. At that price, surely there's a thriving export market somewhere?

Unfocused

■ Problems at Cable News Network? Ted Turner's CNN, the 24-hour news television station. which became required viewing during the Gulf War, appears to

be struggling to retain viewers back Its US audience dropped by some 25 per cent in the first quarter of this year, revenue fell about 7.5

per cent. "There was a slow news environment," says a CNN spokesman. So good news is bad

Diouf's manna Almost six months after taking

over as director-general of the UN's largest specialised agency, the Rome-based Food and Agriculture Organisation, Jacques Diouf has just met the press.

He announced a shake-up for the FAO, with plans to winkle out 200 of the FAO's 1,500 Rome-based experts from their dolce vita. shifting them to the capitals – and, horror of horrors, perhaps even the fields - of Africa and Asia. Could Diouf be implying some

criticism of his long-standing predecessor, Edouard Saouma? asked one diffident hack Hardly: "I am not here to make udgments," replied Diouf. Not even

about the sense of keeping the remaining 1,300 experts beavering away in Rome?

Talent spotted ■ One more tale to add to the

Queens Moat Houses' collection. When the bankers to the

scrabbling around last year wondering what to do as deadlines approached, they decided in desperation to call in an accountancy firm specialising in corporate breakdowns.

Imagine the bankers' horror on finding that most of the experts had departed for the Society of Practitioners of Insolvency annual iunket – in Melbourne.

Fortunately, Alan Griffiths, head of "corporate recovery" accountants Grant Thornton, was still manning his phone. He got the job while

his competitors got sunburn. Barclays, the lead bank, stresses that Griffiths always had been its first choice. "We had our fingers crossed that he would be there." Of course.

Own goal

■ The BBC's exhausting, sorry exhaustive, coverage of the football world cup has been interspersed with what the corporation calls "mood music" which is, it points out, "entirely unrelated" to the different national teams.

That is a relief. For the tune that pipes up when Cameroonian players appear sounds very like "The Lion", by Senegalese singer Yousso N'Dour, described . in the record's sleeve notes as "a sprightly, rallying tribute to Senegal's national heroes, its soccer

Oh well: big place, Africa.

Grand coalition possible in Saxony-Anhalt

Close result forecast in German state poll

German chancellor Helmut Kohl's Christian Democratic party and the opposition Social Democratic party were last night running neck and neck in the first east German state election since 1990.

According to exit polls conducted by state-run ZDF television, for the election in Saxony-Anhalt state, the CDU was edging ahead with 35.2 per cent of the vote, and the SPD, led by Mr Rudoif Scharping, had polled 344 per cent, prompting speculation that the two parties might form a grand coalition in the state. The election is seen as a pointer to the remaining state elections and to the federal elec-

tion on October 16. The CDU, which had steadily moved up in the state opinion polls over the past few weeks, had gained 39 per cent in 1990 and had formed a coalition gov-

crats, which gained 13.5 per cent. But last night the FDP was trailing with less than 4 per cent. training with less that a per can, too low to enter the state parlia-ment, leaving the CDU without its traditional coalition partner. The pressure facing Mr Kohl's CDU, which still governs three of the other eastern states, is whether the FDP, its junior coalition partner, can recover from yesterday's debacle to retain its national representation in Octo-

If the exit polls are confirmed. the SPD - whose share of the vote yesterday rose 8 percen points compared with 1990, which is is seen as a personal success for Mr Scharping - is in a posi-tion to form either a grand coalition with the CDU. It may instead seek to open separate negotiations with the Bundis 90/ Greens, the environmental party.
The Greens' provisional share of the vote rose to 5.7 per cent from 5.3 per cent in 1990.
"We will be constructive no

Christoph Bernger, the CDU prime minister of Saxony-Anhalt. "We will have to see the final results." Mr Bergner is the third prime minister since 1990. The two previous ministers were forced to resign following corrup-tion scandals, which tarnished the party's image in the state.

The SPD's Mr Reinhard
Höppner, the opposition leader in
parliament, said that "if we opt for a grand coalition, the talks

will be very difficult. But the SPD are the real winners." A snap opinion poll for ZDF last night showed that 24 per cent of Saxony-Anhalt voters wanted an SPD/Green coalition compared to 15 per cent for a grand coalition. Only 12 per cent wanted a coalition between the SPD and the Party of Democratic Socialism, the successor to the former east German Communist party, which gained 17.8 per cent of the vote, 5 percentage points

M&S and ABB head list of **Europe's respected companies**

Marks and Spencer, the British high street retailer, and Asea Brown Boveri, the Swedish-Swiss multinational industrial group. are the most respected companies in Europe, according to a peer-

group poll published today.

M&S and ABB emerged as the clear winners when top execu-tives were asked to identify European companies they most respected, in a survey undertaken by the Financial Times in association with Price Waterhouse, the accountants.

The study, the first of its kind, is based on responses to a questionnaire sent to almost 2,000 chairmen, chief executives and finance officers from 637 European companies including the largest quoted, state-owned and

ing insight into senior management attitudes and the qualities they judge to be important to

business success in the 1990s. Almost all the top 25 companies were identified as committed to their shareholders, customers, and employees. The most fre quently cited attributes across all industry sectors were consistent growth and long-term profitabil-ity, clear policy and objectives and high customer loyalty. Conversely, for most respon-

dents, a commitment to equal opportunities, progressive poli-cies regarding childcare and a strong stance on social issues. hardly rated a mention. Perhaps more surprisingly, research and development and design were also low scorers in most sectors. Some interesting differences also appeared at national level.

Customer lovalty was rated the most important quality for a successful company in the UK and was equal second in Sweden, but came lower down for respondents in other big European countries.

Growth and profitability were cited as most important by German and French respondents and ranked second in the UK and Italy, but came eleventh in Spain where market leadership in terms of products or services and displaying a positive management style were rated equal first. In the Netherlands the most

important attribute was judged to be satisfied staff – also high on the list in France, Germany, Sweden and Belgium. It was not seen being particularly important in either the UK or Italy.

Customer loyalty and clear policy top agenda, Pages 8 and 9

Japanese parties begin race for power

Continued from Page 1

his resignation would create a leadership vacuum by assuring US president Bill Clinton that Japan would push on with talks to resolve their trade dispute. The government would also continue its work on economic deregulation and tax reform. about which it is due to unveil a package of measures tomorrow. Leaders of the conservative Liberal Democratic party and the leftwing SDP, the two largest opposition groups, plus the New Harbinger party, a centre-left splinter group from the LDP, yesterday said they were considering an alliance.

"The opposition owes responsibility to end the political confusion," said Mr Yohel Kono, president of the LDP, which was in nower for nearly four decades until it lost a vote of no confidence last June, thanks to the defection of a faction led by Mr

However, a coalition of the LDP and SDP, which for years opposed each other, is likely to be more fragile than the last gov-

The SDP was yesterday undecided on whether to seek to rejoin Mr Hata's camp, two months after storming out of the

coalition, or throw in its lot with its former enemies, the LDP. Mr Tomiichi Murayama, SDP chairman, said he would try again to form a government with the outgoing coalition, but was prepared to ally with the LDP if this falled. Both Mr Murayama and Mr Kono were cited as possible candidates for the post of prime minister. Equally, there was some support for reinstating Mr Hata, amid speculation that he had staged a tactical resignation with that in mind. Mr Masayoshi Takemura, head of the New Harbinger party, said it "would not be totally impossible" for Mr Hata to

become prime minister again.

Brussels seeks reply by Spain in ferry

Spain must this week respond to formal complaints by the Euro-pean Commission that it has dis-

Spain has until Thursday to respond to a letter sent three weeks ago by the Commission, although the Spanish authorities were saying before the weekend they had not yet heard from

The case has been compared to the recent, much-publicised Brit-ish Airways dispute with France over access to Orly airport in Paris.

January 1 1993, a shipowner in one EU member state can start a service between any other member state and a non-EU country. But the Spanish interior minis-try has blocked efforts by Cenargo to start a service between Spain and Morocco since the UK shipping line - its arguments now backed by the UK govern-ment – identified a gap in the North Africa route, used regu-

When Cenargo tried to sail from Nador to Almeria in May last year, it was prevented from docking by armed Spanish militia and naval craft. Subsequent attempts by Cenargo to start the service to the Spanish ports of Malaga and Alicante were also

The interior ministry says neither Almeria, Malaga nor Alicante has international port status and it is up to Spain to decide where its entry points should be. It argues that none of the ports has the necessary facilities for customs and immigra-

Cenargo points out that as late as summer 1992, a service operated between Malaga and Tanremains a destination for a number of international cruise lines. The Spanish state-owned com-

dispute By Emma Tucker in Brussels and

obeyed the rules and spirit enshrined in the European Union's single market in refus-ing a UK shipping company access to the ferry route between Spain and Morocco.

The Commission has launched

the first stage of infringement proceedings after Spain refused to allow Cenargo, the UK ship-ping line, to start a car ferry service between ports on the southern coast of Spain and Nador in Morocc

Under single market regulations that came into force on larly by thousands of EU-based

pany Transmediterranea - now being prepared for privatisation has a monopoly on car passenger ferry services between Spain and Morocco east of the straits of Gibraltar. All existing ferry services dock at Melilla, the Spanish enclave on the mainland of Morocco, just 5km north of Nador. A new service to Nador could deprive Melilla of much of its trade.

THE LEX COLUMN Enterprise's paper tiger

Decision time is approaching for Lasmo shareholders. By Friday they must either back the oil explorer's continued independence or accept Enterprise's £1.6bn all-paper bid. Though the two-mouth battle has seen a welter of accusations, several issues stand out.

Most important, Enterprise has failed to demonstrate any added value from putting the companies together. Comments by Mr Graham Hearne, chairman and chief executive, that it was necessary to be one of the "big boys" smack of empire building. And although it would have been easy to criticise Lasmo's management or financial strength last year, such arguments carry less weight following management changes and the recent

It might still be argued that Lasmo shareholders are being offered such a generous deal that they should accept Enterprise's paper regardless of any industrial logic. The snag is that the offer, which would give Lasmo shareholders 44.5 per cent of the combined entity, looks fair but not generous. As the bid has progressed, perceptions of the relative values of the two compa-nies have shifted in Lasmo's favour. Investors have become aware of how Enterprise's reported profits have been inflated by writing down sharply the value of assets it acquired during

A further problem is that, if the merger went ahead, the market could be flooded by reams of Enterprise paper that nobody particularly wants. So Lasmo shareholders who accept the bid with the aim of selling Enterprise shares in the aftermarket could receive a poor deal. Given the lack of industrial logic or sufficiently attractive terms, investors should reject the

INA

The Italian treasury must be relieved to price INA shares in the middle of the indicated range. Turbulent financial markets are uncomfortable for insurance companies, which are priced relative to net assets. In addition to the malaise afflicting international markets, Italian investors appear to be losing patience with the new government of Mr Silvio Berlusconi. At a 13 per cent discount to stated net assets. INA looks reasonable value against other European insurers. But it would be rash to expect a windfall profit, at least until financial markets recover some poise.

INA rests on the argument that Italy is underinsured by the standards of most industrialised countries. Despite the recent setback in the courts, reform of the generous state pensions system should open the way for private sector providers of savings. Liberalisation of the motor insurance market from July 1 – premiums have been set by government until now - should

also bring opportunities.

The question is whether INA can capture its fair share of expanding markets without losing sight of the risks. Its market share in life insurance has fallen sharply in recent years, although a new bancassurance alliance with Banco di Roma should stop the rot. On the non-life side, INA must resist the temptation of an unprofitable battle for supremacy with Generali. If the group can make the most of its powerful franchise, though, the offer price leaves room for the shares to outperform.

South Africa

Two months after its first all-race elections, South Africa is reaping the reward in terms of access to international capital. Liberty Life, the country's largest insurance company, is ading the way with a \$500m convertible bond offering. Smaller debt and equity issues are sure to follow. Last week's budget included a government overseas borrowing target of R1.8hn

Yet buying rand-denominated assets remains difficult. Despite being the world's 10th largest equity market, the Johannesburg Stock Exchange is noto-riously illiquid thanks to a complex web of cross-holdings. Until South African companies and institutions are free to invest overseas, equities

rand - a closed pool of currency through which all inward investment must be channelled - is another hurdle. True, foreign investors enjoy exceptionally high bond yields because the financial rand trades at a discount to the domestic currency. But the closed pool restricts liquidity, making it difficult to buy and sell. These factors are likely to limit the

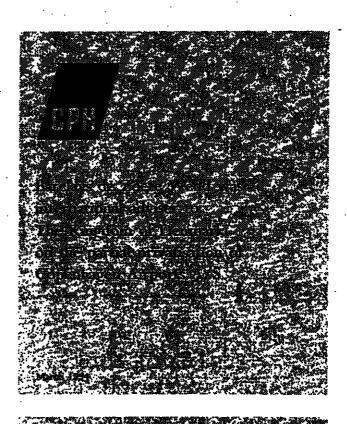
flow of foreign investment in South Africa, however promising the economic fundamentals may seem. While the discount on the financial rand remains high, the government may be too worried about capital flight to abolish exchange controls. The danger is that the discount will not close because international investors dislike dealing in the volatile financial rand. Unless the government takes the initiative, South Africa could find itself locked into a damaging stand-off.

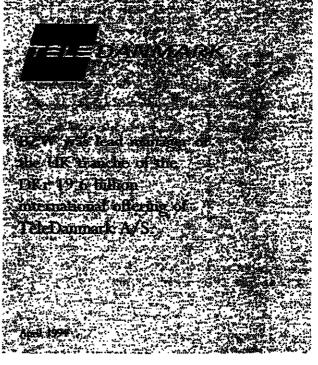
Bell Cablemedia

Bell Cablemedia looks a little foolhardy to be pressing ahead with its \$1.2bn flotation given the state of financial markets. Three other UK cable companies - TeleWest, Comcast and General Cable - pulled their flota-tions last month. But Bell has its own special reasons for seeking a listing. The company, which involves pooling the UK cable interests of Bell Canada, Cable & Wireless and Jones Intercable does not yet exist. Its creation is con-tingent on a public flotation.

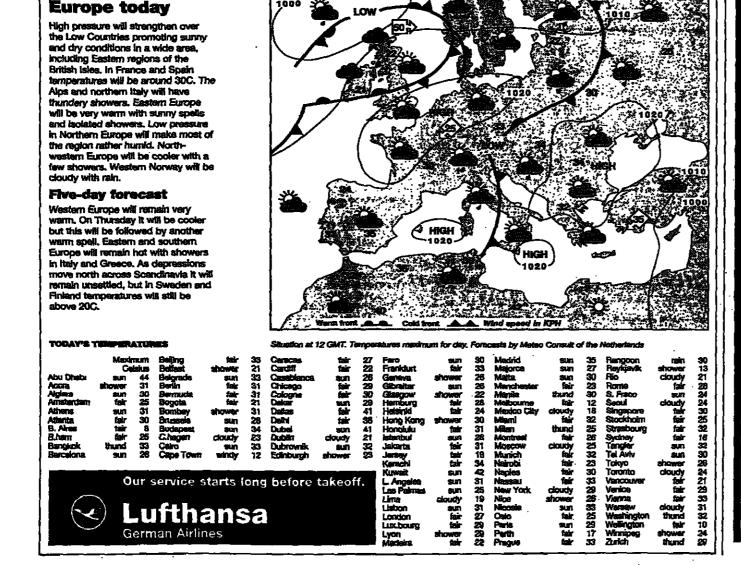
One might therefore be forgiven for expecting the shares to be sold cheap. But, if anything, the price sought looks a touch on the high side. Even at the bottom of the pricing range, Bell's franchises are valued at roughly \$300 per home. Comcast, which came closer to flotation than TeleWest or General Cable, had to pull its offer when investors baulked at a valuation

not much higher than that. Price per home is, of course, only a crude yardstick and there are differences between Bell and Comcast. Bell, for example, controls a greater proportion of its franchises than Comcast - a factor investors rightly appreciate. Unfortunately, other factors point in Comcast's favour. In particular, the company has invested proportionately more in its franchises than Bell. So it is not obvious that Bell deserves a premium rating. Given that, the flotation's success cannot be guaranteed at the current pricing range. If it flops, the chances of reviving the other three flotations will grow even slimmer.









FT WEATHER GUIDE

Monday June 27 1994

Shares in Ina, Italy's state-owned

tosurer, go on sale this morning at L2,400 each, in an interna-

tional public offering which will raise more than I.4,800bn (\$30n).

making it Italy's biggest privati-

It is the first sell-off under the

new Italian government of hir Sil-vio Berlusconi, and provides an opportunity to test policy for the larger privatisations of Stet, the telecommunications holding com-

pany, Enel, the electricity genera-

tor, and kni, the energy and

chemicals group, likely to take place over the next year.

middle of the L2.200-L2.700 range

launched a month ago.

set when the privatisation was

Ministers pressed for a higher price, but officials insisted that

after a week of turbulence on

Italian and world stock markets

it would be more prudent to price

the issue at the lower end of the

range, in line with analysts'

expectations.
The Treasury, which owns 100

per cent of Ina, has imposed new

rules for the sale, aimed at giving the smallest shareholders a voice

on the board and limiting the

ability of a few large investors to

exercise effective control over the

The Treasury is selling 51 per

cent of the insurance company,

which claims a bigger share of

the Italian life and non-life insur-

ance market than any of its pri-

The Ina offer can run until the

end of the week, but it could

newly privatised company.

vate-sector rivals.

The ma price is just below the

Italy puts

if demand is strong. Previous

public offers of shares in the

state-owned financial institutions

Banca Commerciale Italiana -- have been oversubscribed and

closed early. Trading in Ina

shares will begin officially on

Market conditions are not ideal

for ma's privatisation. Last Mon-

day Italian equity prices fellinearly 4 per cent, forcing Mediobanca, the Milan merchant bank;

to postpone its L1,500bn rights

The stock market recovered

later in the week but investors

are still nervous about the gov-

ernment's economic policy. However, officials and advisers

say initial retail demand for

shares in the company - particulitarly from existing policyholders,

who will receive priority treat-

ment - is strong. The interna-

tional tranche of the shares, on

sale in Europe and the US, is said

to be three times covered by

insurers such as Generali and

Ras were strong performers after

the March general election, as

investors speculated that Mr Ber-

lusconi would encourage private

pensions and stimulate the

market. The same shares slipped

last week as investors adjusted

their Italian insurance portfolios

to prepare for the purchase of Ina

are acting as global co-ordinators

Goldman Sachs and IMI of Italy

inderdeveloped life sector of the

Shares in other big Italian

mand from institutions.

IMI, Credito Italiano, and

MARKETS



MARTIN DICKSON: GLOBAL INVESTOR confidence test this week the dollar crisis shows no signs of abating and it has pushed US long bond yields, which set the pace for global markets, near the bottom of their recent trading range.



PETER NORMAN: ECONOMICS NOTEBOOK Faced with sharply rising bond yields in the world's capital commentators have revived the notion of a global capital shortage. There is plenty of evidence.

The Canadian province of Ontario, one of the biggest borrowers in the international bond market is forcing ahead with its funding programme for this year, having raised C\$4bn of its C\$7.7bn (US\$5.5bn) requirement. Page 28

This morning, the market will be watching to see if: currency intervention alone can preserve the dollar. If, as the stock market believes, only action on interest rates can save the day, then share prices will again be at risk. Page 29

EMERGING MARKETS:

Romania is set to become the latest of eastern Europe's former Communist states to open a stock exchange. The bill shows greater commitment to reform by the government. Page 27

In the light of the dollar's dismal performance after central bank intervention to support it last Friday, foreign exchange markets will be testing the US

COMMODITIES:

First-half sales by De Beers' Central Selling Organisation, which controls 80 per cent of world trade in rough diamonds, are reported on Wednesday and are widely expected to match or even exceed the record \$2.54bn in the first ex months of 1993. Page 26

UK COMPANIES:

BAT Industries, the UK tobacco and insurance group, has warned that its \$1bn acquisition of American Tobacco could be jeopardised by the increasingly aggressive attitude of the US Food and Drug Administration. Page 24

INTERNATIONAL COMPANIES: Harris Trust, the Chicago-based subsidiary of Bank of Montreal, said it would absorb losses of \$51.3m on behalf of customers whose money it had invested in unsuitable securities created out of mortgage-backed bonds. Page 25

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OTHER COMPANIES

Montedison, the Italian industrial group, is scheduled for tomorrow, and the AGM of Ferruzzi Finanziaria, Montedison's holding company, for Wednesday, although both meetings could stip by 24 hours. Shareholders will want to hear a progress report about the delicate restructuring of Ferruzzi-Montedison, a year after the near-collapse of the heavily indebted group, and the suicide of its chairman, Mr Raul Gardini.

■ Adam Opel: General Motors German subsidiary, will tomorrow hold its

of this year.

Broken Hill Proprietary, the largest of Australia's natural resource companies, is due to report its fell year earnings an Priday. Most analysis expect a strong performance, with sentiment having been boosted by this week's mount production. week's robust production report,

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Tony Walker reports on a growing beer market

Brewers 'prudent' price fight for China's on Ina shares potential

Last week's tie-up between Foster's of Australia and Wheelock of Hong Kong to seek joint brewing ventures in China marks a new stage in the struggle for the country's beer market.

US, European. Asian and Australasian groups are striving to develop brewing and distribution networks for their flagship brands such as Becks, Kirin, Fos-ter's and Budweiser as China emerges as the potentially big-gest international beer market. Mr Nick Norgard, managing director of Foster's China, was euphoric after signing the agree-ment with Wheelock, the Hong Kong merchant house.

The China market is growing at an enormous rate on an enormous base," said Foster's. "In 1993, it grew by 23m hectolitres which is 140 per cent of Australia's entire brewing capacity of 17m hectolitres.

This explosion explains why international brewers are drooling over China. Anheuser-Busch, the world's biggest brewer, announced earlier this month that it was planning to take over the Zhongde brewery in Wuhan (a joint venture involving Steinbrau) as a step towards building a national presence with its Budweiser brand. Foster's, too, is eyeing opportunities in Wuhan as part of its strategy to establish nationally-accepted brands.

in a highly fragmented market China boasts some 800, mostly tiny, breweries - there are no identifiable national brands with the possible exception of Tsingtao which has just 2.5 per cent of the market. National distribution is hampered by a clogged and

ACTUAL " crumbling transport system. Ms Helena Coles, an investment analyst at Kleinwort Ben-son in Hong Kong, said: "Distri-bution and marketing is going to

sort the men from the boys.

Excess demand is not going to

last forever." But at this early stage China's thirst would seem unquenchable. Average per capita consumption is around 8 litres per annum compared with 158 in Germany, 92 in

the US, and 50 in Taiwan. According to a Kleinwort Benson survey of Asian beverages, the China beer market will double by early next century to

Growth is running at 20 per cent, but long-term average growth rates of 10 per cent are "achiev-

Since 1984 China has moved from seventh place to second behind the US as a beer producer with output in 1998 of 12.25m tonnes. The number of breweries in that time has doubled. But this proliferation of brewers is coming to an end, and evidence of a shake-out is already surfacing, with takeovers of near-bankrupt smaller brewers in increasingly competitive local markets.

Mr Norgard said Foster's strategy was to proceed as quickly as

KPMG discusses option to incorporate By Andrew Jack in Londor KPMG Peat Marwick, one of the

UK's largest accountancy firms is considering abandoning its traditional partnership status in

favour of incorporation.

A meeting later this week of senior partners will decide whether to proceed with plans that could lead to it becoming a company as soon as this antumn. The move would be the first by a firm of any size to incorporate although it has been theoretically possible by law and under professional ethical rules for the

nest two years. Sources within the firm suggest that the action has been driven primarily as a method of protection against the rising costs of litigation in respect of audit and other clients.

Incorporation would be unlikely to lead to the introduction of outside investment or a stock market flotation. It would almost certainly force public dis-closure of the firm's financial performance.

Accountancy firms are secretive about their results, revealing only their billings. KPMG showed reported revenue of £498m (\$757m) last year. The firm's decision to co

new options follows radical plans for reorganisation being considered by the larger firms in the US, where the scale of the liability crisis is more serious. A number of other large UK accountancy and other profes-sional firms have discussed

incorporation, but none is believed to have gone as far. The 25 "general partners" who control KPMG will meet on Friday and are expected to consider options for the future structure of the firm.

Partnerships have unlimited hability when sued – they can be forced to surrender not just the firm's assets such as buildings, but also the personal assets of all the partners.

Most senior staff in an equivalent limited liability company claims on their personal assets, except for those who were most directly involved in any negli-gent advice for which they were being sued.

Mr Colin Sharman, head of the firm, would not comment pub-licly but said: "I believe incorporation for both accounting and other major firms will be unavoidable." Background, Page 11

Black tries to limit fears on UK price war

By Raymond Snoddy in London

Mr Conrad Black, chairman of The the drop in profits resulting from the cut in the cover price of The Daily Telegraph to 30p would be limited to no more than £5m to £10m (\$15m) in a full year.

The company cut the price of the week-day Daily Telegraph to attack the cut-price Times, now at 20p and conceded that the move would cost £40m gross in a full year.
The admission led last week to a sharp fall in The Telegraph share price. Mr Black said yesterday he believed as much as said yesterday he believed as much as his share price from the 5879 at which £25m of that could be regated from extra Hollinger sold 12.5m Telegraph shares on

The company, he said, is also likely to benefit from normal growth in the company's subsidiaries in Canada and Australia. "It's not progress but we can live with that," he said. Sales of The Daily Telegraph have already started to rise since last week's price cut, according to Mr Black. "The Telegraph was up 90,000 on Friday," he said.

Mr Black believes the very steep fall in

revenue, reduction in tax and cost-cutting at The Daily Telegraph, which saw its price of 332p was a "ludicrous overaction". Corporation. A front page editorial in The circulation fall below 1m in April for the He said if the share price did not rise sales and reduced costs he would be happy

to buy the shares back himself. Mr Black thought two of the three main accusations against him had fallen away. One was the "legal-ethical question" over the May share sale. The Stock Exchange ruled on Friday that there was no conne tion between the sale of the shares and the announcement of the price cut.

The second accusation Mr Black believes he faces is that he is a co-predator with Mr Rupert Murdoch, chairman of The News

Andreas Whittam Smith, the paper's edi-Rupert Murdoch and Conrad Black, have set about destroying the quality newspa-per market." Mr Black said that for taking action to counter the Murdoch price-cutting campaign "Andreas Whittam Smith should embrace me as a brother".

It is too early to know if the third accusation - that Mr Black has simply thrown away millions of pounds - is correct. "If I have got it wrong I will acknowledge the error publicly. If a policy is mistaken then we must find another," he conceded.

This week: Company news

Acceleration to break-even point may be forecast

Mr Gianni Agnelli, chairman of Fiat, rar Grand Agnein, charman of Fiat, Italy's biggest private-sector industrial group, should tell shareholders on Thursday that the group expects to break even this year at net profit level. In May, Flat revealed the biggest loss in its Of mean bistory.

loss in its 95-year history - L1,783bn (\$1.1hn) compared with a net profit of L551bn in 1992 – and decided not to pay a dividend on ordinary shares for the first time since 1947. But 1993 now appears to have been the low point, when deep recession in the automotive market coincided with a historic high of L8,900bn spent on investment in fixed assets and research

This year, the group should benefit from gradual improvement in its main sectors – cars, trucks, and building and farm equipment - and especially from the success of the Punto range of small cars. The Punto leads a wave of new models to be launched in the next three years under the group's Fiat, Lancia and Alfa Romeo brands.

Restructuring and cost-cutting across the group should also help the company's profitability, and the innovative "integrated" car factory in southern Italy spearheads a shift in Fiat's manufacturing culture, according to the group. It remains to be seen whether this transformation will be undermined by complacency as the market improves. But meanwhile investors have been rewarded with a strong increase in Fiat's share price, from around L4,000 in January to about

On Thursday, shareholders should approve a potential increase in Fiat's maximum nominal share capital, to L10,000hn from L5,000hn, because last year's complex rights issue – which raised L5,000bn – took the company up to the limit of its issued share capital. However, the group should not have to draw on the new facility in the near future.

Not switched on for too much brightness

Seven of the 12 UK regional electricity companies will be trying to show how different they are from each other when they report their results this week. Their problem is that they will not want to increase their profits by a

percentage that is much larger than the rest and attract attention from consumers and the regulator just ahead of the most important review of prices they are likely to face. This will determine how much the

companies can charge customers for distributing their electricity for the five years from next April.
The companies that have reported so far have amounced fairly modest.

increases, mostly in the 15 to 20 per cent range. This week's seven are expected to follow suit. Norweb and Seeboard report today. Norweb is expected to announce pre-tax

profits of about £175m (\$288m), against £157m, and a dividend of about £2.5p, (20p), whereas Seeboard is predicted to announce £125m (£113m) pre-tax and an 11.8p (10p) dividend. Tomorrow Midlands is forecast at about \$200m (£167m) and 23p (20p) respectively.
On Wednesday Northern should announce about £125m (£111m) and 24.6p (21.4p) and Eastern about 2220m (£183m) and 22p (19.2p). Sweb on Thursday should achieve £115m (£101m) and 23.5p (20p). Yorkshire will bring the show to a close on Friday with about £175m (£156m) and 23.5p (20.4p).

Delicate moment for Ferruzzi-Montedison The annual shareholders meeting of

subsidiary, will tomorrow hold its annual press conference in Frankfurt. High on the agenda is likely to be the found with rival Volkswagen over Mr José Ignacio López de Arriorita, the former GM director who defected to VW in March last year. Opel will-also spell out its 1983 results — recenit speculation suggests that it lost DM500m (\$306.7m) last year — and comment on trading in the first half of this year.

covering the same 12-months to ... end-May. Domestic steel despairs for example, were 13 per cent higher,

Companies in this lesue

BAT industries

Bank Austria

Bank of Montre

Enterprise O#

while exported steel from Australia rose 19 per cent. Iron ore and copper production also increased sharply, and while Australian coal exports w slightly lower, output from RHP's Indonesian coal mines showed a marked rise. Estimates for the after-tax profits figure are around A\$1.25bn (\$900m), compared with A\$991m (excluding abnormals) last time.

■ Deutsche Bundespost Telekom: The state-owned German telecommunications company which recently teamed up with Sprint, will report its 1993 results on Friday. The company has predicted sales of DM58hr (\$35.5bn), up from DM54bn the year before, but has warned it will not make a profit because of extraordinary items. Telekom hopes to become a joint stock company in six months, but a strike by the postal union has jeopardised the privatisation timetable. All now hangs on a key parliamentary vote on June 29.

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May 1994



American Tobacco acquisition in jeopardy after FDA accusations

BAT looks again at \$1bn deal

BAT Industries, the UK tobacco and insurance group, yesterday warned that its \$1bn (2600m) acquisition of American Tobacco could be jeopardised by the increasingly aggressive attitude of the US Food and Drug Administration.

The warning follows accusa tions last week by Mr David Kessler, FDA commissioner, that a US subsidiary of BAT had secretly developed a form of tobacco with high nicotine content through genetic engineering. Mr Kessler's allegations were part of a campaign by the FDA to gain regulatory control of the tobacco industry.

tor of public affairs at BAT, said: "If the FDA takes control of tobacco regulation and introduces closet prohibition by stopping the sale of cigarettes containing nicotine or banning cigarettes that generate smoke - that could have a material impact on the results of American Tobacco."

The contract between BAT and American Brands, the diversified US owner of American Tobacco, contains a material adverse change clause, according to BAT. This allows BAT to cancel the deal though not change the price -if the results of American Tobacco, the US's fifth largest nificantly. "We will be looking carefully

at American Tobacco's next few quarters," said Mr Prideaux. The deal is scheduled to be concluded by April 1995. The acquisition, currently being investigated by the Federal Trade Commission, would increase BAT's sales by about 50 per cent, raising its share of the US cigarette market from 11 per cent to 18 per cent. BAT is already the US's third big-Mr Thomas Sandefur, chair-

man of BAT's subsidiary,

Brown & Williamson Tobacco.

last week accused Mr Kessler of leading "a dangerous cru-

and political agenda" of banning tobacco products.
"We don't expect Mr Kessler to succeed in his agenda - the tobacco industry is already tightly regulated. But it's a worrying development," said Mr Prideaux.

Any attempt to pull out of the acquisition would probably lead to litigation with American Brands, he admitted.

When the deal was announced BAT already knew the US tobacco market was in trouble. Competition has become increasingly fierce since Philip Morris, the market leader, cut the price of its Mari-

Enterprise and Lasmo prepare for final phase

By Robert Corzine

Enterprise Oil's £1.7bn hostile bid for fellow oil explorer Lasmo enters its final phase this week as both sides prepare their last presentations for institutional investors in the UK. Mr Graham Hearne, Enterprise chairman and Mr

Joe Darby, Lasmo chief executive, spent much of last week making the rounds of US investors, who control more than 20 per cent of Lasmo. Enterprises's final all-paper

offer closes at 1pm on Friday.

Some institutions are known to have made up their mind about the bid. However, it is widely expected that big shareholders, the largest with more than 16 per cent of Lasmo shares and 5 per cent of Enterprise, will wait until Friday morning before declaring which side they will

support. Speculation continued at the weekend that Enterprise would begin buying Lasmo shares this week if it is not confident that it can reach the 50 per cent target through

straight acceptances. The company can buy up to 10 per cent of Lasmo shares in the market. It is believed that any such buying would include both US and UK

shareholders if it materialised

Martin Retail to join market with £100m tag

Martin Retail Group is coming to the market in the autumn via an institutional placing and open after which is expected to value the neighbourhood news-

Although the flotation will not raise any money for the group itself, MRG is expected to use its quote and the debtfree balance sheet to expand on the high street and in the convenience store sector. At east 60 per cent of the shares are expected to be placed with institutions.

The flotation will mark the end of a difficult period for the group, which has been owned by a consortium of banks for more than two years. "We will have a more normal share ownership structure which will allow us to take the group forward," said Mr Rob Leak, man-

aging director.

After a brief period under the ownership of Guinness. MRG was sold in 1987 for what has since been acknowledged as an excessive price to an Australian consortium which included News International and Panfida.

When Panfida collapsed in 1992, the banks took over Mar-tins. Since then, they have left the management, led by Mr Leak, to expand the product range - into spheres such as

BEDOER/INVESTOR



Robert Leak (left) with Garry Honeyball, finance director (right), and Judy Waterman, manageress of the new Epping branch

off-licences and post offices and roll out a computer system which eliminates the need for regional managers.

MRG will come to the market with 766 branches, including the RS McColl chain in Scotland, and has capacity in its warehouse to take on a further 600. The group intends to expand through acquisition, but will focus on developing its convenience store concept and high street presence.

MRG has ambitions to take on high street giants WH Smith and John Menzies. By

CROSS BORDER M&A DEALS

the first full year of flotation it is expected to add 100 sites. Since 1992, MRG has raised profits before tax and interest from £6.5m to £11m. Last year it generated estimated net cash of £5m, after £10m in capital expenditure. Analysts estimate profits will rise by at least 10 per cent

in the current year. Most expect investors to be drawn to MRG's growth potential rather

than its dividend prospects. MRG's sponsors are Klein-wort Benson, and advisers are Barclays de Zoete Wedd.

COMMENT

VALUE

Long awaited druga deal Sanoli (France) Sterling Winthrop (US) Comcast (US) Unit of Maclean Hunte US cable consolidatino Complex cross holding deal Barito Pacific Timbe Construction & Supplies Joint Energy Develo Jedi knight in bid fray Bridge Oil (Australia) Continuing Deutsche Hefewerke

BOC (UK) Unit of Engen (S Africa) Hughes Offvetti Telecom Olivetti (Italy)/Hughes Network Systems (US) Business satellite move Ad Oat (US) Unit of Volvo (Sweden) Transport services AT&T (US)/Unisourc International links growing

Insas to control Power in I£50m deal

Malaysia's Insas group will take control of Power Corporation, the Republic of ireland-hased property development group, under the terms of a memorandum of understanding agreed by the two compa-

Insas, an investment holding company quoted on the Kuala Lumpur stock exchange since 1969, has conditionally agreed to subscribe 1250m (£49m) for new ordinary shares in Power as part of a complex capital reconstruction involving a placing and open offer.

The investment is subject to a number of conditions including the completion of discussions between Power and its bankers over the proposed capital reconstruction and the rescheduling of a portion of Power's debts. The proposed reconstruc-

tion also includes reducing the par value of Power's 116m shares from 10p to 5p. following this, about 1bn of new ordi-nary shares with 200m detachable warrants will be issued to Insas as part of a placing and open offer at a price "that would not differ materially from the current market price." Power's shares closed unchanged at 5%p on Friday.

Each warrant will entitle the holder to subscribe to one new Power share until eptember 30, 2004. Power plans to raise up to a further

1550m through a simultaneous placing and open offer of a similar number of shares and warrants, which will be underwritten by Credit Lyonnais.

Insas recently disclosed that it held a 4 per cent stake in Liberty, the upmarket fabric and fashion group, and confirmed that it was acting in concert with Mr Brian Myerson's family vehicle - Concerto Capital Corporation - which holds a 12.8 per cent in Liberty. Under the terms of the memorandum Insas' 900,000 share stake in Liberty will

be sold to Power in exchange for new ordinary shares with warrants worth Once completed, Insas, which plans to use part of a planned M\$600m (£150m) rights issue to finance its investment in Power, will hold just less than a 50 per cent stake in the Irish group and will gain

control of the board. Insas' managing director, Mr Thong Kok Khee, will become Power's chief executive. Power intends to use the remaining cash from Insas' subscription and the placing and open offer, totalling about 1270m, to

acquire and develop more shopping cen-

SCI bid for Great Southern doomed to failure

Service Corporation International's hostile bid for funeral operator Great Southern Group is doomed to certain failure, because of restrictions in the Memorandum and Articles of Association of the UK company's large shareholder, writes Simon Davies.

The restrictions mean that the US funeral giant has been forced into a tight timeframe, which could considerably weaken its negotiating position assuming that it is prepared to increase its bid for Great Southern, as

SCI launched its offer document last Tuesday, offering Great Southern shareholders 600p a share, 26 per cent above the pre-bid closing price.

A separate offer was made to JD Field & Sons, the private company controlled by the Field family, which owns 56.1 per cent of Great Southern's

SCI's success rested on gaining the support of five trusts which control close to 70 per of JD Field, since the company's five directors immediately rejected the bid as "wholly unaccept able". However, these trusts are legally prohibited from accepting the bid within the set timeframe, even if they

could be swayed by SCI's cash. Under JD Field's Articles of Association, there is an extraordinarily complex procedure for any shareholders wishing to transfer shares.

A firm of accountants has to give an estimate of fair value for the shares, which can take up to 21 days. The shares must then be offered to existing shareholders at the agreed price, for a minimum of 14 days.

Finally, the directors have four months from the initial announce of a shareholder's intention to sell, in which they have the right to find an alternative buyer for the shares.

Under the Takeover Code, the cur-rent offer for Great Southern can last a maximum of 60 days, and if it lapses, SCI will not be able to bid for Great Southern until after a year. The restrictions on share transfer would take JD Field shareholders well

JD Field's restrictions on share trans-

fers can be removed, but this requires 75 per cent approval from shareho at an extraordinary general meeting. Unfortunately for SCI, the directors who have unanimously rejected the offer, own 27 per cent of II) Field's shares, making the current offer an empty gesture.

Yesterday Schroders, which is advising SCI, confirmed that SCPs directors had been aware of the contents of the Memorandum and Articles of Association and, "recognised that the only way the bid could succeed was with the agreement of JD Field, the 56 per cent shareholder."

This announcement appears as a matter of record only.

Iune, 1994



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COMPANIES AND FINANCE

GiroCredit

independent

GiroCredit, Austria's third largest bank, aims to remain

an independent force in spite

of the purchase by Bank Aus-

tria, the country's largest, of a

controlling stake in it two

Mr Herbert Lugmayr, Giro's

new chief executive, said the bank would co-ordinate its

activities with Bank Austria

in a few areas where joint

efforts were sensible, but

would pursue its own strate-

It was planning a public flo-tation of shares within the

next two years provided its

earnings improved and divi-

dends could be restored. The bank expected to achieve an

unchanged Sch2bn (\$177m)

operating profit this year, he

to remain

says chief

By lan Rodger in Zurich

months ago.

gies in most.

Harris Trust takes loss on mortgage-backed deal

Trust. Chicago-based subsidiary of Bank of Montreal, said it would absorb losses of \$51.3m on behalf of customers whose money it had invested in unsuitable securities created out of mortgage-backed bonds.

The bank's decision, which will lead to a \$83m post-tax loss, echoes moves by some other US banks and fund managers whose investment strategies have proved fallible in the volatile markets of recent months

BankAmerica recently injected \$17m into a money market mutual fund it runs to make up losses which other-wise would have been born by customers, while PaineWebber paid \$38m to cover mortgage-backed bond losses on behalf of investors in one of its funds. The latest losses stem from \$2.3bn of collateralised mort-

gage obligations (or CMOs) which Harris bought on behalf of 40 of its pension fund customers. These instruments are created out of standard mortgage-backed bonds and comprise a near-\$800bn market in

Harris said the pension funds were customers of its securities lending division. The money used to buy the bonds was collateral which had been deposited with the bank against securities it had lent out on behalf of the funds.

This money should have been invested in safe, short-term instruments, the bank said, adding that it had decided to absorb the losses to protect its reputation. The money invested in the risky bonds represented more than a third of the \$6.7bn in its securities lending portfolio.

CMOs range in riskiness from highly geared instru-ments whose price can move quickly as interest rates

change to standard fixed-income securities.

Bank of Montreal said the CMOs in the Harris portfolio were capped floating-rate notes - instruments which pay a higher interest rate as market rates rise, but only to a certain

The losses were caused by the sharp fall in loan repayments by mortgage borrowers in the US, Bank of Montreal said. As repayments decline, the duration of the bonds grows longer, hitting their value - a trend which has caused widespread price falls in mortgage-backed bonds.

The \$2.3bn of bonds have been taken over by Bank of Montreal, which said it had sold \$800m of the holdings in recent days. The remainder will be held as an investment the bank said. As a result, the bank will not have to mark the bonds to market something Harris would have had to do under US accounting rules.

Last February, following a two-year tussle between the two largest savings banks groups, Bank Austria and First Austrian, over the future shape of Giro, Bank Austria unilaterally bid for enough shares to take its 30 per cent stake to a small majority. Since April, when Bank Austria achieved its objective,

analysis have been wondering how this socialist bank would treat its traditionally conservative acquisition. Its quick decision to appoint Mr Lugmayr as chief executive

provided few answers. He is a socialist and spent most of his career in Zentralsparkasse, one of Bank Austria's prede-cessors, before joining Giro's management board in 1988. However, Mr Lugmayr said

in an interview that Giro would remain a basically con-servative bank. "It will be independent from Bank Austria. They have not tried to

He said the two banks would co-operate mainly in foreign business and data processing. Also, Giro's highly rated capital markets department would be merged with Bank Austria Investment Bank. Giro would then concentrate

on its core business, supplying various financial services to throughout Austria.

Sanofi shifts centre of gravity The drugs group has taken a big strategic step, says John Ridding

r Jean-Francois international drugs companies, Debecy, chairman of Sanofi, the French (\$570m) and a base in most of pharmaceuticals group, comthe world's biggest markets.

pares his company to a locomotive. After last week's deals, which bring it the prescription drugs business of Eastman Kodak of the US and involve the sale of its own bio-activities division, the locomotive has been firmly shunted towards a new destination. "It is a major strategic step,"

declares Mr Dehecq, arguing that the centre of gravity in the company would now shift squarely towards pharmaceuti-cals. The group's cosmetics division, which include Yves Saint Laurent and Yves Rocher, will remain a core business. But even here, cashflow will be used to help finance the company's pharmaceuticals ambitions.

The bio-activities division, until last week the third pole of the company, will be used to provide a much quicker source of finance. The businesses ranging from food additives to veterinary products, will be sold to pay the bill for the \$1.68bn acquisition of the prescription drugs business of Sterling Winthrop from Kodák. So what lies behind the strategic step? Mr Dehecq has long expressed a desire to expand in the sector and push his group,

Continued from Page 25

possible in establishing a

national brewing network. Fos-

ter's last year formed joint ven-

tures with brewers in Shang-

hai and in Guangdong

province.
Its aim, in alliance with

Wheelock, which has experi-

ence in Chinese property and

infrastructure, is to develop

five regional hubs for produc-

tion, marketing and distribu-

tion based on Guangzhou in the south; Shanghai and

Wuhan on the Yangtze; Cheng-

du/Chongoing in Sichuan prov-ince in China's south-west; and

Total sales 1993 48.45bm

1.17bn

Such ambitions lay behind the strategic tie-up with Sterling Winthrop. Formed in 1991, the alliance gave inexpensive access to markets in the US, Latin America and Asia. But Kodak's announcement in May that it would sell its healthcare activities to focus on core businesses signalled the end of the alliance and gave Sanofi the opportunity to go it alone by buying parts of its US partner.

Kodak's decision also gave Sanofi a strong bargaining position, "Sanofi was effectively a poison pill in Sterling Winthrop because of the alliance agreements," says Mr Peter Smith, pharmaceuticals analyst at James Capel. This helps explain what most

analysts regard as a good price for the acquisition. "The amount they paid was at the lower end of what we were expecting," said one. But the price will only prove reasonable if the logic of the

deal can be proved. "We are making a bet on pharmaceuticals." admits Mr Deheco. He believes the odds are tilted in his favour because the acquisition will expand the company's direct presence in international markets, from a subsidiary of Elf-Aquitaine, the US to south-east Asia, prothe recently-privatised oil com-pany, into the ranks of the vide an outlet for products in the pipeline, and because econworld's largest pharmaceutiomies will be achieved through cals groups. This week's deal propels Sanofi into the top 20 merging the businesses of SanResults 1991-93 (FFr)

1993 1992 1991

1.05bn R&D excenditure 2.07bs 1.86ba

Sales breakdown by division 1993 Human healthcare: E Bio-activities (including Entremont, checking Entremont, checking Entremont) activity, which is not to be sold.) Perfumes and beauty FFr12.1bm Source: Sanofi

"We will not be a Merck," admits Mr Dehecq, "but we will have a foot in the door to market our new products." As for cost-savings, Mr

Dehecq argues that the merg-ing of the businesses will provide economies not available to the joint venture with Sterling Winthrop. Head office functions can be combined, as can marketing and development budgets.

These synergies, he believes. combined with the profits of Sanofi's new businesses will soon feed through to the bot-tom line. "Earnings per share should be 10 to 15 per cent higher in 1995 as a result of the acquisition", he estimates.

Such forecasts should be welcomed at Elf-Aquitaine, Sanofi's parent, which last Friday forecast a fall in operating profits of up to 20 per cent in the first half of the year.

As with any important strategic decision, however, there are question marks. In this case, many relate to the disposals necessary to finance the

Mr Philippe Jaffré, chairman of Elf-Aquitaine, has issued strict instructions to subsidiaries to the effect that debt must not be increased. Neither did Elf want to see its 52 per cent stake in Sanofi reduced through a capital increase.

As a result, Mr Dehecq must sell assets. He says he is confident that buyers will be found for the bio-activities division, and Sanofi has already been contacted by almost a dozen potential suitors.

With a gearing ratio of 20 per cent, and net debts of between FFr2bn and FFr3bn, a bridging loan can be easily arranged, he

An additional challenge is that Sanofi is for from alone in seeking to expand in pharmaceuticals. The plethora of recent acquisitions and mergers in the industry are evidence of stiff competition in the sector. Mr Dehecq argues that prescription drugs are not exposed to the low price competition of non-prescription over-the-counter drugs and that new products over the next lew years will allow the group to expand from its newly-gained bridgehead. That, Sanofi can stay on track.

Uruguayan airline privatised

By John Barham

Uruguay has completed its first privatisation with the sale of 51 per cent of Pluna, its ntational airline, to a consortium of Argentine and Uruguayan companies.

Mr Juan Piaggio, Pluna's president, said the consortium paid \$2m cash and assumed the

carrier's liabilities of \$20m. The consortium is led by the Buquebus ferry company, which runs passenger services between Buenos Aires and ports in Uruguay.

The buyers selected Varig, the heavily loss-making private Brazilian airline, to operate Pluna on a contract for 10 vears. Mr Alberto Fajerman. Varig's assistant planning director, said the airline will take over Pluna's financial and commercial management as well as operating its aircraft. Mr Fajerman said Varig "will receive a fixed payment and a

Pluna's performance.

PosGold cleared to buy stake in Boddington mine

By Nikki Talt in Sydney

The West Australian Supreme Court has cleared the way for Poseidon Gold, part of Mr Robert de Crespigny's Normandy Posiedon group, to purchase a 40 per cent stake in the Bodd-ington gold mine from Reyn-

The court dismissed a claim by Newcrest Mining, which has a 20 per cent interest in the West Australian mine, that it had certain pre-emptive rights over the sale of interests

in the joint venture. However, Newcrest is seeking a stay of proceedings

"pending consideration of the grounds for any appeal". That was duly attacked by PosGold, which is therefore unable to complete the deal and said it was "disappointed at the prospect of further delay and

expense". The Reynolds/PosGold deal which involves payment of US\$116m plus delivery of 30,000 ounces of gold over seven years - had originally been due to close in March.

The ruling, if it is upheld, may facilitate Shell Australia's planned sale of its metals interests, which include 37.5 per cent of the Boddington mine.

Foron rescued from liquidation

Foron, the successful east German refrigerator company has been rescued from liquidation after the Treuhand privatisation agency secured invest-ment commitments from the London-based East German Investment Trust fund (EGIT).

Foron, and will put up DM11m (\$6.7m) in capital. However, Foron, one of the region's most innovative companies, has agreed to allow Egit to reduce its purchase price of Haushaltsgeräteservice, which holds

Egit will hold 47 per cent of

By Judy Demosey in Berlin

the Trenhand, anxious to save the majority stake in Foron.

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED

porated in the Republic of South Alinca) Company Registration No. 01 05309 06

NOTICE TO MEMBERS

ANNUAL GENERAL MEETING Notice is hereby given that the seventy-seventh annual general meeting of members of Anglo American Corporation of South Africa Limited will be

held at 44 Main Street, Johannesburg on Thursday, 11 August 1994, at 09.00, for the following business: 1. To receive and consider the annual financial statements for the year

ended 31 March 1994. 2. To elect directors in accordance with the provisions of the Corporation's

articles of association. 3. To consider and, if deemed fit, to pass, with or without modification, the following ordinary resolution: That subject to the provisions of the Companies Act, 1973, as amended, and the rules and regulations of The Johannesburg Stock Exchange, the Directors are hereby authorised to allot and Issue in their discretion all the remaining authorised but

Holders of share warrants to bearer who wish to attend in person or by proxy or to vote at any general meeting of the Corporation must comply with the regulations of the Corporation under which share warrants to

unjessed share capital of the Corporation for such purposes as they may determine after setting aside so many shares as may be required to be allotted and issued by the Corporation pursuant to the Share Incentive

A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his stead. A proxy need not be a member of the Corporation. If required, forms of proxy are available from the Head office and London office of the Corporation.

By order the Board C. L. MALTBY

27 June 1994

44 Main Street, Johannesburg 2001 The 1994 annual report is being posted to registered shareholders today and copies are apallable for holders of share marrants to bearer from the London office.

Registered and Head Office

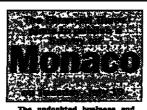
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Beijing/Tianjin in the north.

Brewers fight for China's growing market

Foster's and Wheelock are looking at establishing "greenfield" breweries in Tianiin. Wuhan and Chengdu. Mr Norgard said it would "depend on circumstances" whether these

ofi and Sterling Winthrop.

were joint ventures with local International brewers are pursuing widely differing strategies. According to China's Ministry of Light Industry, some 30 separate partnerships have been established with foreign entities.

There is also Anheuser-Busch's 5 per cent stake in Tsingtao, purchased last year

when the Chinese brewer floated on the Hong Kong mar-

Others seeking to position themselves in the market either through joint ventures or licensing are Asia Pacific Breweries, a venture between Fraser and Neave of Singapore and Heineken, the Dutch brewer, San Miguel of the Philippines; Becks of Germany: Kirin of Japan; Carlsberg of Denmark; Pabst Brewing of the US: and Lion Nathan of New

Zealand. Notable by their absence at this stage are the

including China Strategic and China Resources, are also investors in China ventures. Mainland-backed China Resources has a majority stake in a Shenyang brewery in the north-east, and China Strategic has ventures with brewers in

Beijing and Hangzhou. With all this activity it would be hard to disagree with Kleinwort Benson's asses that the beer industry in China is "at a crossroads". The penetration of foreign beers and premium local brands is certain to gather pace as Chinese cerning and affluent.

NOTICE OF REDEMPTION AT THE OPTION OF THE HOLDERS OF

Texas Instruments Incorporated

24% Convertible Subordinated Debentures due 2007

Notice is hereby given pursuant to the provisions of the Indenture dated as of September 29, 1987 (the "Indenture") between Texas Instruments Incorporated (the "Company") and Bankers Trust Company, as Trustee, and in accordance with paragraph 4(a) of the Texas and Conditions of the Debentures set forth on the reverse thereof, that:

1. Each Debenture may be redeemed at the option of the holder thereof thiring the 30day period beginning on September 29, 1994, in whole or in part in increments of \$5,000 at 100 percent of the principal amount to be redeemed plus accrued interest to the

at 100 percent of the principal amount to be redeemed plus accrued interest to the Redemption Date;

2. The Redemption Date shall be September 29, 1994 unless a date within the 30-day period beginning on September 29, 1994 is specified in the Notice of Redemption at Holder's Option given by a holder to one of the paying agents noted below;

3. To exercise the option to elect to redeem, a holder shall, on or before August 29, 1994 but not prior to July 29, 1994, present its Debenture(s) with written Notice of Redemption at Holder's Option substantially in the form on the reverse thereof duly completed (together with all the coupons maturing after September 29, 1994) to one of the paying agents noted below, together with (a) instructions as to the principal amount to be redeemed and (b) instructions for the payment thereof, including instructions in accordance with paragraph 2(a) of the Terms and Conditions of the Debentures;

4. Exercise of the option to elect to redeem shall be irrevocable, acreetheless the holder shall retain the right to convert the tendered Debenture(s) into Common Stock at the Conversion Price of \$82.875, provided that notice of such convenion substantially in the form on the reverse of the Debenture and the holder's nonransferable receipt of deposit for such Debenture(s) are delivered to the paying agent shich issued such receipt on or praor to the close of business on September 29, 1994. In the event such Debentures are converted on (but not prior to) September 29, 1994, such holder shall be entitled to receive the interest payable on such Debentures on such date.

Surrender of Debentures for redemption may be made at any one of the paying agents into the form of the paying agents shick between the surrender of Debentures for redemption may be made at any one of the paying agents in the form of the paying agents is to below:

Rookers Tout Company Corporate Trust and Agency Group
1 Appold Street
Broadgase

Landon EC2A 2HE

Darred: June 27, 1994

CH-400Z Basic

Banque Indosuez Luxent 39 Allee Scheffer L-2520 By: Bankers Trast Company,

£75,000,000 **WOOLWICH**

9% Fixed Rate/Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from June 23, 1994 to December 23, 1994 the Notes will carry an Interest Flate of 5.67% per annum. The interest payable on the relevant interest payment date, December 23, 1994 will be £25.43 per £1,000 principal amount and £142.14 per £5,000 principal amount

By: The Chase Manhattan Bank, N.A. London, Agent Bank June 27, 1994

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London Office

19 Charterhouse Street

London ECIN 60Pg

U.S. \$250,000,000 Guaranteed Floating Rate Subordinated Capital Notes Due July 10, 1997 ally Guaranteed on a Subordinated Basis by

Citicorp Banking Corporation

CITICORPO Notice is hereby given that the Rate of Interest has been fixed at 5.25% and that the interest payable on the relevant Interest Payment Date, September 27, 1994 against Coupon No. 40 in respect of US\$10,000 nominal of the Notes will be US\$134.17. June 27, 1994, London By: Ciribank, N.A. (Issuer Services), Agent Bank CITIBANCO

THE LEEDS LEEGS PERMANENT BUILDING SOCIETY

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By: The Chase Manhattan Bank, N.A. O London, Principal Paying Agent June 27, 1994

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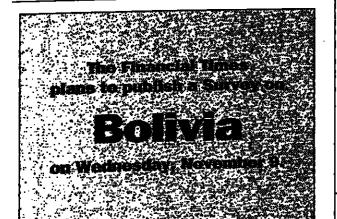
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27th June 1994



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Notice is hereby given that for the three months interest period from June 23, 1994 to September 23, 1994 (92 days) the Subordinated Notes will carry an interest rate of 5.8675%. The interest payable on September 23, 1994 for the Subordinated Notes will be £148.40.

Advertise your property to approximately 1 million FT readers in 160 countries. For details:

SCHRODER JAPANESE WARRANT FUND LIMITED

NOTICE AND AGENDA NOTICE is hereby given that the Fourth Annual General Meeting of Schroder Inpanese Warrau Fund Limited will be held at 10,30 a.m. on 22 July 1994 at Barfield House, St. Julian's Avenne, St. Peter Port, Guernsey, Channel Islands GY1 3QL for the purpose of considering and if, though fit, passing the following resolutions.

To receive and adopt the Report of the Directors and the Accounts for the year ended 31 March 1994.
 To re-elect Coopers & Lybrand as Anditors of the Company.
 To arthorise the Directors to agree the Anditors' renumeration.
 To consider Any other Business.

Registered Office : Barfield House, St. Julian's Avenur St. Peter Port Schroder Invostment Mas By Order of the Board ent (Guernsey) Limited

VOTING ARRANGEMENTS FOR IDR-HOLDERS

IDR-Holders who wish to vote must follow the following procedure: If the IDRs are held in an account with Euroclear or CEDEL, IDR-Holders mus-contact Euroclear or CEDEL instructing them to block the IDRs in the IDR-Holder's account until conclusion of the meeting and specify the manner in which the vot ie to the IDRs should be east. If the IDRs are not held through Eurockear o Cedel, IDR-Holders must ensure that their voting instructions, together with either their IDRs or their bank's confirmation of deposit (including IDR serial numbers), reach the Depositary at the latest on July 19, 1994 at the address given below (attention Securities Department - telephone 32.2.508.86.42-telex 21752 MORBK s) Copies of the Annual Report are available from the Company's registered office and the Depositary at the address indicated below.

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THIS WEEK



International markets face a confidence this week: the dollar crisis shows no signs o abating and it

pushed US long bond yields, which set the pace for global markets, very close to the bottom of their recent trading range. A significant downward break-out would send fresh shock waves through fixed income and equity markets around the world

The weekend resignation of Japanese Prime Minister Hata has hardly helped market stability. The political turmol in Tokyo is likely to intensify pressure on the dollar this morning, with traders arguing that it will make a US-Japanese trade agreement much harder to achieve.

This in turn increases the likelihood of further rounds of concerted central bank intervention to stabilise the dollar, but there is little reason to think this will prove any more successful than Friday's Canute-like failure to stem the tide running against the US

currency.

Whatever the cause of the dollar's weakness (inflation worries, the US trade deficit, distrust of President Clinton). the central message of the mar-

ket is that the US does not offer nearly large enough a risk premium to encourage foreign investors to hold American assets.

The markets suspect this will force the Federal Reserve to tighten monetary policy again, either at the next meeting of its policy-making com-mittee, on July 5 and 6, or even before then.

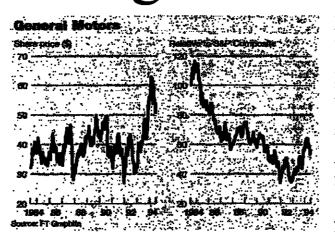
Irrespective of currency fac tors, the robust (though slowing) American economic expansion probably justifies another quarter point rise in the Fed Funds rate some time over the summer, but gradualism of that order will hardly encourage investors to hold dollars, while a sharp rise in rates would risk damaging the economic recovery.

Last week's sharp drop in bond and equity prices has already factored some tightening into the US market, but that may not prevent further market instability if the Fed

The low rate of US inflation may give some underpinning to the bond market. Although Wall Street has been focusing anxious attention on the recent sharp increases in commodity price indices, the fact is that labour costs are a far more important component of output and they appear to still be well under control. The equity market, however,

Global Investor / Martin Dickson in New York

A green-backed bear



the Fed first tightened in early February, the Dow Jones Industrial Average has been relatively robust, losing less than 10 per cent of its value at the worst point and trading in a drifting, sideways range. There has, however, been a

mutual funds. However, mutual fund cash inflows dropped last week to their lowest level since early April, when the market sufslight downward bias to the movement and last week's fered its only week of net near 140-point drop brings the redemptions this year, and fur-

post-tightening trading range. Until now, investors have bought on the dips and private edginess.

If the Dow dips through 3,600, it could trigger a sharp individuals have continued to be net investors in stock drop in US equities over the coming few weeks, with an inevitable ripple effect around the world. The US market correction of the past five months has yet to produce the kind of sharp downward lunge, the

final submission to the bear,

bounces, one could be coming.

Mexico Emerging markets will take

their lead this week from Wall Street, but Mexico could face additional volatility following Friday's resignation of interior minister, Mr Jorge Carpizo McGregor, even though this was rejected by President Sali-

nas, who will try and twist Carpizo's arm this week. Carpizo is the man responsible for Mexico's August 21 presidential election and his

departure, complaining that "diverse sectors" are trying to block his efforts for fair poll, are bound to throw fresh doubts on the validity of the country's electoral proces Some analysts suspect his resignation may be linked to that of Mr Manuel Camacho

Solis, who last week stood down as the government's peace envoy to Zapatist rebels after criticism from ruling PRI presidential candidate Mr Ernesto Zedillo. The implica-tion is that Camacho allies (who may include Carpizo) will not support Zedillo's campaign.

The resignation increases the perception of political risk in Mexico. The IPC index fell 55.66 after Friday's news and is

down 16 per cent on the year. Mr Geoffrey Dennis of Bear bearns says the country is suffering from a "buyers' strike", with investors seeing little reason to buy. He thinks the country

remains a long-term buy but does not rule out further

General Motors This week General Motors is expected to announce its first big shake-up in senior management since the autumn of 1992 when the board ousted Mr Robert Stempel and replaced him

as chief executive with Mr Jack Smith. Mr Smith will remain chief executive but hand over responsibility for GM's North American vehicle operations to

young turk Mr Rick Wagoner. The handover is a measure of how far Mr Smith has turned round GM's North American operations. In the first quarter they were more than \$500m in the black, thanks to, in part, an improv-ing market, which has allowed all US car manufacturers to cut sales discounts.

But the distance GM still has to go was underlined by a report last week from consultancy Harbour & Associates, which estimates it would have to cut 20,000 jobs to become as efficient as Ford.

GM shares trade on a 1994 p/ e ratio of a mere 7.3 and many Wall Street analysts rate it a buy, given its restructuring and the strong cyclical upturn in North American vehicle

But GM still has much to prove, the market will soon start focusing on the next cyclical downturn (if it has not already done so), and a very jittery equity market means this is not the time to be increasing exposure to US consumer durable stocks.

COMMODITIES

Diamond record possible

-Weighing up the Options -

Acquisitions Monthly's Management Buyout Conference

Tuesday 18th/Wednesday 19th October 1994

The Marriott Hotel, Grosvenor Square, London W1

First-half sales by De Beers' Central Selling Organisation, which controls at least 80 per cent of world trade in rough (uncut) diamonds, are reported on Wednesday and are widely expected to match or even exceed the record US\$2.54bn achieved in the first six months of 1993.

however, that the diamond market is in sparkling condition. De Beers is being pressed on two fronts: By its custom-ers, who cut and polish gem diamonds and by the Russians,

who supply about 25 per cent of the stones that are sold by the cartel.

The big customers are complaining that their profit margins have been squeezed so hard during the past two years that they are now practically

The CSO is to meet a delegation to discuss these problems. The CSO drastically reduced the number of diamonds it made available at its two most recent "sights" or sales, a move welcomed by the cutters

Meanwhile, difficult negotiations in Moscow about a new contract between Russia and the CSO will continue in Moscow next month. Some Russians are pressing for big changes and it is unlikely that agreement will be reached

Mr Mark Cockle, editor of CRU International's Diamantaire newsletter, says: "The likely outcome of the talks having to choose between terms that threaten to push Russia out of the cartel or alternatively favour Russia to the point of antagonising South Africa and Botswana mining interests - is one De Beers' officials want to postpone as long as possible." On Wednesday the Internal tional Wheat Council's annual World Grain Conference will be held in London. Speakers include Mr Eugene Moos, US

Richard Mooney

undersecretary of agriculture, Mr Zhou Mingchen, chairman of China's Ceroilfoods, and Mr Warren Lavorel, deputy director general of the General Agreement on Tariffs and

which often marks a turning In economics

walks of life. new ideas are rare. So it is not surprising that faced

sharply rising bond yields in the world's capital markets, some analysts and commentators have revived the notion of a global capital shortage. The last time the idea did the rounds was after the Gulf War of 1991, when extravagant estimates of the costs of rebuilding Kuwait were thrown together with back-of-the-envelope calculations of the bill for modernising the former communist countries of eastern Europe and the Soviet

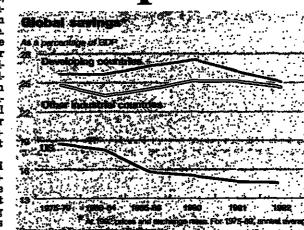
Talk of a global capital shortage was quickly forgot-ten as the recession of the early 1990s stifled investment and the problems of turning former communist countries into market-based economies became apparent. Last year's speculative bond market boom funds for investment were not in short supply. But as economists and analysts seek to explain the upwards spike in long-term interest rates over the past six months, some are

re-examining the idea that capital might be scarce. One such economist is Mr Peter Warburton of Robert Fleming Securities. He believes the world experienced a bond market bubble in 1992-93 that obscured a secular fall in private and public sector savings in the industrialised countries. "It is not that we have a capital shortage that has happened suddenly",

There is plenty of evidence suggesting strong demand for capital. Only last week, the Paris-based Organisation for Economic Co-operation and Development (OECD) reported that the total net resource flow from industrialised to developing and former communist countries was a record \$159.5bn last year, up from \$153.2bn in 1992 and higher

Shortage of capital? conundrum of

Economics Notebook



than the 1991 level of \$124bn. Global claims on capital seem set to grow further. In the industrialised world, economic recovery is spreading from the Anglo-Saxon countries to Germany, the rest of the European continent and Japan.

• Industrial country governments are still running large

budget deficits. In its recent World Economic Outlook, the International Monetary Fund com-plained: "Most if not all industrial countries failed to consolidate their fiscal posttions adequately in the 1980s and entered the 1990s with high actual and structural budget deficits, high public debt to GDP ratios and consid-

erable unfunded pension liabilities." The IMF has forecast that the industrial countries' bud-get deficits will fall to 3.5 per cent of their gross domestic product next year against 42 per cent. Although an improvement, this would still leave the overall budget shortfall well above the 3 per cent

European Union countries by the authors of the Maastricht Treaty and substantially higher than the recent low of 1.3 per cent of GDP in 1989. • The dynamic newly-industrialising economies of Asia continue to grow robustly while other developing nations, including China, India, Vietnam, Argentina and Chile, are expanding rapidly. When populous giants such as China, India and Indonesia stir, the effects in terms of demand on financial resources

can be great indeed. In his recent Hayek memo-rial lecture to the Institute of Economic Affairs in London Mr Peter Sutherland, the director general of the General Agreement on Tariffs and Trade (GATT) pointed out that the world's population is set to increase by nearly 2bn in the next 20 years. Of these, 95 per cent would be born in countries other than the industrialised member states of the OECD.

"One consequence is that between now and the year

2015, the number of new jobs required to keep unemployment rates unchanged in the developing world will exceed the current populations of western Europe and North America combined", Mr Sutherland said. "The economic implications are manifold. including competition for cap-

This increase in activity comes as savings rates are falling around the globe.

By contrast, savings in the developing world, and in Asia in particular, have been ing. According to the BIS in Basie, the developing nations share of the world's \$5,000bn pool of savings was 20 per cent in 1992, up from 12.5 per cent in the early 1970s, and higher than the US share. But savings as a percentage of GDP have started to decline in the developing as well as the industrial coun

But how will our lives be affected if there really is a world capital shortage?

One distinct possibility is that the low bond yields at the 1994 will turn out to have been no more than a passing phenomenon. Even though some of the near 3 percentage point increase in 10 year UK gilt yields from low to recent high and the roughly 2 percentage point jump in compa-rable US rates may unwind, capital scarcity would be certain to leave real interest rates higher than 6 months

With globalisation, that means the required real rates of return on investment would increase throughout the world. Given their higher costs, the industrialised countries would find it even more difficult than today to compete with the fast-growing developing nations of Asia in labour intensive production of low-tech tradable goods. In the industrialised world,

the need for higher skills and more high value-added occu-pations would grow ever more

Peter Norman

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Acquisitions

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l	Denmark (33)256.58		248.66	163.65	213.06	218.95	-42	1.35	258.38	247.03	163.92	213.73	219.69	275.79	207.58	211.90
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ı	Germany (56)134.65		129,44	85.66	. 111.61	111.61	-11.7	1.85	135.15	130.23	86.42	112.67	112.67	147.07	107.59	107.59
1	Hong Kong (56)362.27	′ -26.0	348.26	231.06	300.83	359,46	-25.g	3.30	385.56	352.23	233.73	304.75	362.79	506.56	271.42	266.16
ı	Ireland (14)183.17	' –1. 1	176.08	116.83	152.10	170.11	-8.2	3.59	186.19	176.40	119.05	155,22	173.48	209.33	155.93	156.90
ı	Italy (90)84.21	22.5	80.96	58.71	69.83	98.90	12.8	1.60	85,32	82,21	· 54.65	71.19	100.40	97.78	57.88	87.11
ı	Japan (489)165.80		159,38	105.75	137,68	105,75	15.2	0.72	166,21	160,15	105.27	138.56		186.34	124.54	144.00
ł	Maleysia (98)		459.06	304.58	396,54	478.34	-22.4	1.71	475,13	457,81	303.70	396.10		621.63	312.51	312.51
ł	Mexico (18)1892.56		1819.35	1207.08	1571.53	7011.87	-13.5	7.11	1909.88	1840,23	1221.15	1692.15		2647.08	1481.08	1496.40
ĺ	Netherland (27)196.80	-1.1	189.25	125.58	163.47	160.98	-8.8	3.53	198.93	191,68	127.20	185.84	163.18	207.43	164.22	184,22
1	New Zeeland (14)68.71	-1,8	64.13	42.55	55.40	60.16	-8.7	3.96	67.97	65,49	43.46	56.66	60.99	77.59		
ı	Norway (23)	3.1	178.05	118.13	153,80	174,81	-4.7	1.89	184.06	177.35	117.69	153.44	174.32	206.42	48.80	48.80
ı	Singapore (44)337.00	-8.5	323.98	214.84	279.84	237.19	-13.0	1.78	338.42	326.08	216.38	282.12	238.33		150.61	150.61
i	South Africe (56)276.02		265.34	175.04	229.19	285.78	14.1	221	281.62	271.35	180.06	234.77	291.15	378.92	242.48	242.48
١	Spein (42)135.46	-2.8	150.22	86.40	112.48	135,82	-10.6	425	137.92	122 80	88.18	114.98	138.90	284.68	175.93	195.37
ŀ	Sweden (36)207.28		199.26	132.20	172.12	235.37	-29	1.70	206.48	198.96	132,02	172.14	235.37	155.79	116.33	125.90
۱	Switzerland (47)158.22		152.10	100.91	131.38	131.29	-10.9	· 1.85	159.51	153.69	101.99	132.97		231,35	163,85	183.85
۱	United Kingdom (205)181.11	-11.7	174.10	115.51	150.39	174.10	-15.3	4.82	184.75	178.02	118.13	154.02	133.45	176.56	124.46	124.57
ĺ	USA (519)180.55		173.58	115.15	149.92	180.55	-4.9	2.97	183,36	178.67	117.24		178.02	214.96	170.32	172,64
ı			17320	1.4.13	146,000						11/-47	152.85	183.38	198.04	178.95	182.50
l	EUROPE (720)160.91	-4.5	154,68	102.63	133.61	146,30	-11 <i>.</i> 4	3,19	162.85	156.91	104,12	135.78	148.58	178.58	444.60	100 00
ı	Nordic (116)201.65	6.4	193.84	128.61	167.44	197,85	-2.0	1.51	200.95	193,62	128.48	167.52	197.97		141,58	141,58
j	Pacific Basin (750)172,68	19.0	186.01	110.14	143.40	115.06	8.8	1.04	173.22	198.90	170.75	144.40		220.60	155,82	155.82
l	Euro-Pacific (1470)167.61	8.1	181.12	106.90	139.18	128.05	-0.3	1.91	168.73	162.58	107.88	140.88	115.61	173.75	134.79	147.51
ı	North America (825)176.83		169.99	112.78	146.83	176.50	-5.0	2.98	179.64	173.08	114.86	149.75	129,23	170.78	. 143,88	144.97
1	Europe Ex. UK (\$15)146.21	-0.9	140.55	93.25	121,41	128.91	-8.9	253	147.29	141.92	94.18		179.27	182.73	175.67	179,26
ı	Pacific Ex. Jacon (281)242.69	-15.4	233.20	154.72	201.44	218.25	-183	292	244.13	235.23	156.10	122.79	130.40	157.47	122.37	122,37
ŀ								1.92	189,65			200.53	219.08	296.21	182.38	182,38
ı	World Ex US (1683)	7.0	161.50	107.35	138.76	131.17	-0.5			163.27	108.41	141.34	132,43	172.51	145.58	145.81
ĺ	World Ex. UK (1967)170.42	. 4.0	163,82	108,89	141.51	143.80	-0.6	2.08	171,98	165.71	109.96	143.37	145.31	175.58	155.82	155.62
l	World Ex. So. Af. (2113)170,74		164.14	108.90	141.78	145.66	-23	2.29	172_46	166,17	110.27	143,77	147.34	178.56	156.97	156.97
ı	World Ex. Japan (1703)	-5.8	169.91	112,73	146.76	189.59	-8,3	3.01	179.17	172,64	114,56	149,37	172.08	195.20	185.93	165.93
ł	The Marie Indonesia and Co.		1017		440.00	146.69	-2.1	2.29	173.13	166.82	***			19020	103.83	103.33
l	The World Index (2172)171.39	2.6	164,75	109,31	142.31	140.09	<u> -21</u>		1/4.10	100.02	110.70	144.33	148.40	178,97	167.13	157.13

EMERGING MARKETS: This Week

A burst of activity in Hungary

Rungary is experiencing an unprecedented burst of new equity

es. Public offerings in Egis, the pharmaceuticals produc

issues. Public offerings in Egis, the pharmacenticals producer, and Global, a retailer, were oversubscribed last week. Subscriptions for shares in Pharmavit, a thriving private-sector producer of vitamin pills, opened on Friday and are expected to close today or tomorrow, writes Nicholas Denton in Budapest. Holders of compensation compons – securities issued to victims of communist expropriation – can from today apply for shares in Chinoin, a leading pharmaceuticals company. Queues of investors were already growing at the weekend, Another issue scheduled for next week is that of Graboplast, a manufacturer of artificial leather. Some 58 per cent of the company, worth \$1.00 and the production of the company, worth \$1.00 and \$1.0

is on offer from June 30. In addition, AV RT, the state holding company, gave the go-sheed for the sale of a minority stake in Richter Gedeon which the authorities hope will raise \$47m. Although international interest in Hungary has cooled since the Budapest bourse logan to fall in February, demand for new issues still remains much stronger than last year.

boost the country's cash-

strapped but rapidly expanding

private sector. Larger private

companies involved in produc-tion are beginning to emerge

from the thousands of small

trading companies and farming

associations set up in the

immediate post-communist

period. There are also many

state firms, such as the Agri-

culture Bank, one of the coun-

try's big four commercial banks, which have diluted

state ownership through capi-

The authorities believe that

there are already enough pri-

vate or partly state-owned com-

panies planning a listing this autumn to pass the minimum

of five companies needed to

launch the stock exchange.

The Emerging Investor / Virginia Marsh

Romania shows commitment

Romania is on course to become the latest of eastern Europe's former communist states to open a stock exchange following parliement's acceptance this month

of a securities bill The bill, due to be promulgated within the next two weeks, paves the way for the establishment of an equity market and securities commis-

sion this autumn. The passage of the bill is being seen as a sign of greater commitment to reform by the covernment which in the past three months has pushed through parliament more reform legislation than it did in its first 16 months in office. Foreign investors have also been encouraged by signs of economic stabilisation and growth and by the agreement with the International Monetary Fund last month of Romania's first new loan

agreement in two years. Under the terms of the deal the IMF

will support the minority left-wing government's reform programme with loans worth \$720m over 19 months.

The reform programme, drawn up last autumn with the World Bank and IMF, has already had promising results. The tough monetary policy adopted by the country's reformist central bank since last November has brought inflation down to 6 per cent a month against last year's average of 12 per cent. The leu, the national currency, has been liberalised and made internally convertible. Exports are up 39 per cent over the first five months of last year while industrial production has stabilised after nearly halving

between 1990 and 1993. Foreign investors and the country's emerging private sector hope that the government will now begin structural reform in earnest by speeding up privatisation and restructuring of the state sector.

Ten bes	t perform	ing stoc	ke	
Stock	Country	17/6/94 \$ close	Work on work	s etempo %
Cho Heung Bank	S.Kores	18.1416		19.27
Eczacibasi Bac Brisa	Turkey Turkey	0.1473	0.0203	16.00
Manil Bank	S.Korsa	0.1097 12.7679	0.0149 1.8276	15.67 14.61
Benk of Secul	S.Korea	9.7942	1.0910	12,54
Corticeira Amorto	Portugal	13.9165	1.4939	12.03
Eregii Denir Ve Celik	Turkey	0.2257	0.0199	9.68
Commercial Bank of Korse Kordosa	S.Korea. Turkey	9.4223 0.2853	0.8305 0.0248	9.67 9.53
Alpha Leasing	Greece	22.1486	1.1986	5.72

the stock exchange and the development of capital mar-

kets. Certificates of ownership (COs), representing the population's 80 per cent free share in the equity of the 6,300 state companies due for privatisa-tion, have been distributed to some 15.5m Romanians. At first the new exchange is due to trade COs while the government finalises mechanisms for their transfer into shares.

As a precursor to a mass privatisation programme, the authorities, advised by Hambros, the UK merchant bank, are preparing a series of public offers.

The aim is to sell about five medium-sized companies at a time for a combination of cash and COs. So far, the only Romanians able to use their COs to buy shares have been those participating in the pri-vatisation of some 500 small companies via management and/or employee buy-outs.

The public offer programme will also provide foreign investors with a relatively quick and simple way to buy into a state company. Foreign companies will be able to purchase part of the 70 per cent offered for cash or to come in via a canital increase

Until now there has been little foreign participation in the privatisation scheme. This is partly because the first companies to be sold were generally too small to attract foreign

est exchange will attract signif-icant foreign investment like those in other central European countries.

interest. Uncertainty over com-

mitment to reform, excessive bureaucracy and difficulties in

setting up the six funds charged with implementing

privatisation are other factors.

the \$900m in direct foreign

investment since 1990 has

come through joint ventures

The hope is that the Bucher-

rather than direct purchases.

This has meant that most of

Wasserstein Perella, the US boutique bank, has taken the lead, becoming the first western bank to set up a local merchant bank and investment

Capital markets will also

\$1.56 level.

Ecuador

The higgest single trade ever crossed on the Quito stock exchange was executed last Wednesday when the Rcuadorean government sold its remaining stake in the cement company, La Cemento Nacional, writes Stephen Fidler.

The stake - 20 per cent of the company - was bought by the London-based merchan bank Morgan Grenfell, and placed with investment institutions in the US, which took 70 per cent of the shares.

The shares were sold by the government at the prevailing market price – 215,000 shares were sold at 404,000 Ecuadorean sucres (\$187) each, giving a value to the trade of

The shares had fallen from a peek of 580.000 last November, in part because of a dispute with the mayor of Gusyaquil about tax payments. They rallied sharply afterwards.

Bankers at Morgan Grenfell said they planned to create depositary receipt programms for the shares, which should be in place in about two months.

Recent excitement in emerging markets largely by-passed Ecuador, which has only moved ahead slowly with economic reform. That has meant that shares are cheaper than in other Latin stock

Morgan said La Cemento's prospective price-to-earnings multiple this year is about 9, compared, for example, with 17 for Colombia's Cementos

Baring Securities emerging markets indices

News round-up

Maurithus is to open its stock market to international investors following an announcement last week in the country's budget.

company since 1974. Holderbank, the Swiss cement giant, took a 50 per cent stake in 1976, which it retains. La cent stake in the Peruvian company, Cementos Norte

Oman

Pacasmayo.

The first fund to offer foreign access to a Gulf stock market will open for trading on the London and Muscat stock markets on Thursday.

Diamante, while the dividend

yield is about 7.5 per cent. Until Wednesday, La

Cemento, which sold 1.4m

tonnes of cement in 1993 to

generate \$128m in revenue

had been a joint public/private

The Oryx fund, jointly nanaged by London-base Blakeney Management and the Oman National Insurance Company, raised \$52m

As obliged by Omani law, 51 per cent of the fund's capital was raised in Oman, with the remainder coming from a "comfortably oversubscribed" international issue, with most interest coming from the US, the UK, Switzerland and the east Asia.

Mauritius

Previously foreign investment in securities could be channelled only through the UK-based Mauritius Fund, which was started 18 months ago. Thirty-four securities are listed on the equity market. which saw a 290 per cent increase in turnover in 1993 as the market index surged by 119 per cent. Market capitalisation currently stands at Rs18,85n (\$1.15n).

■ Burma

More than 100 companies have invested over \$1bn in Burma since the ruling junta began liberalising the economy in late-1988, said Brig Gen David Abel, minister for national lanning and economic development.

He added that Singapore was the major foreign investor, having invested some \$500m

 Emerging markets coverage appears daily on the World Stock Markets page

CURRENCY MARKETS

Be denting the Contraction

Dollar bears looking for more action

in the light of the dollar's dismal performance after concerted central bank intervention to support it last Friday, the foreign exchange markets will be testing the US currency's downside again this week. Cynical markets are expected to continue to ignore

favourable economic fundamentals such as steady growth and low inflation in the US in favour of speculative activity. A host of US statistics, including a May survey of con-sumer confidence and the National Association of Purchasing Managers' index, will be released this week. But economists do not expect the data to affect the market as

ufacturing output will be released this week. Under normal circumstances, statistics conforming.

with market forecasts of a stable inflation rate at about 3 per cent and a slowdown in the pace of growth might be expected to diminish sentiment towards the D-Mark. But most analysis believe

traders are determined to drive the dollar down in an attempt to draw out further central

The US government can

dealers have been disregarding statistics for some time. expect little relief from the domestic monetary policies of In Germany, important cost of living indices and figures for its G7 partners. The Bundesbank has shown it is unwilling to cut its discount rate and the industrial production and man-Bank of Japan, while vigorously intervening on behalf of the dollar last week, is unlikely to cut its interest rates while the government of Prime Minister Tsutomo Hata is in politi-

cal difficulties.

Furthermore, the Fed itself is unlikely to raise rates before the July 5-6 FOMC meeting, as US officials have been indicating that underlying infiationary pressures are under con-

haven currencies for investors seeking risk reduction. Developments on the Euro-Sterling may test its upside against the dollar this week as



pean crosses could also be tions of the outcome of the KII affected by investor percep-

World (264) 150.38 -3.27-18.03 -10.71 Letin America Argentina (19) Brazil (21) Chile (12) Mexico (24) -9.12 -3.04 +5.63 -9.51 +9.91 -13.72 ±25.98 185.87 -2.87 Lattin America Greece (14) Portugal (14) Turkey (22) Europe (50) +14.25 Asia -6.04 -1.01 Korea (23) Malaysia (22) Pakistan (10) Philippines (11) +17.43 -41.17 127.13 +15.89 +1.68 +9.22 -5.09 -2.23 +1.30 -17.13 -12.82 -6.94 -46.90 +5.74

FT GUIDE TO WORLD CURRENCIES The table below given the latest evaluate make of exchange founded; against four lay currencies on Friday, June 24, 1994 . In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are find.

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NOTICE IS HEREBY GIVEN

THAT a dividend of 29 cents per share upon the paid up Common Shares of this Bank has been declared payable for the current quarter at the Bank August 24, 1994 to sharehold

By Order of the Board Jane E. Lawson Senior Vice-President & Sec Montreal, June 14, 1994

BANCO BILBAO VIZCAYA

FIRST QUARTERLY DIVIDEND 1994

The Board of Directors of Banco Bilbao Vizcaya S.A. has approved the payment of the first quarterly dividend for the Financial Year 1994 on all shares issued, numbered 1 to 231,000,000 as follows:

Gross Dividend

Net Dividend 9.50 ptas

on or after 11th July 1994

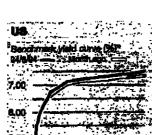
As the Bank shares are represented by entries in the official register maintained by the Servicio de Compensación y Liquidación, S.A. (the "SCL"), the payment of the dividend will take place through the members of the SCL.

NEW YORK

Renewed declines in the dollar sent US bond prices reeling on Friday. In spite of yields that just a few weeks seemed attractive, few investors were willing to take the plunge into the market with the dollar in such a precarious condition, and traders were busy selling in anticipation of further falls in bond prices this week. By the end of the day the yield on the benchmark 30-year Treasury bond had reached 7.52 per cent, its highest since mid-May.

The direction of bond prices in the days to come will again be linked to the dollar, and with currency traders predicting that further central bank intervention will be insufficient to relieve the pressure on the US currency, the portents do not look good. If investors do manage to

bank intervention will be insufficient to relieve the pressure on the US currency, the portents do not look good. If investors do manage to tear their eyes away from the dollar, they will find plenty of statistics on the state of the US economy. Perhaps the most closely-watched gauge will be the National Association of



Richard Tomkins

Purchasing Management's business index for June, due out on Friday, which will give an assessment of manufacturing conditions in

10 years 20:

Bond market bulls, however may find little comfort in the figures, which are likely to show that demand and inflation gauges remain disturbingly high. Salomon Brothers predicts that the overall index will be up 0.3 points to 58, a four-year high.

LONDON

With no significant UK economic data due this week, international factors are set to play a key role in the gilt markets. In the afternath of the Fed's apparently unsuccessful attempt to defend the dollar on Friday, the international bond climate

seems set to remain both bearish and volatile.

This is expected to have a knock-on effect on gitts, not least because UK bonds are currently closely reflecting developments in continental Kuropean bond markets such

as Germany.

On the domestic front, the main event of the week will be the Benk of Kngland's £2bn auction on Wednesday of a floating-rate Treasury 1998 issue. With the size slightly lower than the £2.5bn of the last FRG issue, some analysis, like Mr Nigel Richardson of Yamaichi International, argue that this indicates the Treasury is revising down its expectation for the public



Other traders disagree, and argue that it is too early in the financial year to forecast a change in the level of government borrowing.

Either way, the release of the Treasury forecast on Tuesday, which will include a PSER prediction for this year, will be scrutinised by the glits market. The forecast is expected to show that expectations of inflation have been revised down and those of growth rates up.

FRANKFURT

Bunds staged a recovery last week but can this be sustained in the coming days? Sentiment may be helped by data on manufacturing and industrial output for May, due this week. Mr Klaus Basder at Lehman Brothers predicts

that both figures will grow by less than 0.5 per cent — a sharp slowdown from the previous month and further confirmation that the German economic recovery is pallid rather than vigorous.

Provisional inflation figures for June are also expected. The

for June are also expected. The consensus is that the year-on-year rate will at worst be unchanged from the 3 per cent of May, although the closely-watched number could fall to 2.9 per cent.

Mr Klaus Holschuh of

commercials in Frankfurt, says the market may recover confidence, with the yield on 10-year bunds heading below 7 per cent. He warns though that there may well be false starts and investors may sell into a price recovery.



David Waller

Crucial to the market in coming weeks are Germany's private and other "non-bank" investors, who bought DM20bn, of bands in the first four months of the year. The Bandesbank is hoping to drive these investors out of short-term deposits into longer term investments and these purchases are offset by sales by foreign investors who off-loaded DM27.7bn of bunds

TOKYO

The Japanese government bond market has been a victim of the recent sell-off in global bond markets, prompted by fears of rising inflation due to economic recovery, but a closer look at the economic data suggests declines in Tokyo may be overdone.

The worst seems to be over

The worst seems to the for the Japanese economy. The tankan, the quarterly survey of business confidence, released two weeks ago indicated the first upturn in sentiment for five years, while first-quarter GDP grew by an annualised 3.9 per cent, the best in three years.

However, while the economy has stopped detarlorating, statistics suggest that a recovery and inflationary

statistics suggest that a recovery and inflationary pressures will be weak.

Considering the theoretic equilibrium of long-term rates should be around economic growth, the bond market seems to be overshooting at current levels, says Mr Jim Vestal at Barclays de Zoete



i gers p

Evidence of slow growth
may be provided by this week's
industrial production figures
for May, which are expected
to fail, while consumer prices
for June are likely to reveal
low inflationary pressure.
Mr Vestal points out that
while government bonds are
not a long-term buy, current

for June are nicely to reveal
low inflationary pressure.
Mr Vestal points out that
while government bonds are
not a long-term buy, current
levels are not justified by the
underlying economic condition
and predicts the benchmark
will fall below 4 per cant
during the next two months.

Capital & Credit / Antonia Sharpe

Madden's team goes global to fund Ontario

funding programme, having

raised C34bn of its borrowing

requirement of C\$7.7bn. It also

expects to pre-borrow a further

C\$2bn to C\$3bn for next year.

"We like to stay ahead in our funding, it allows us to be flex-

However, difficult conditions

ible," Mr Madden said.

If you want to do business with the Canadian province of Ontario, one of the biggest borrowers in the international bond market, here's some

important advice.

Don't insist on dealing only with John Madden, the assistant deputy minister who is responsible for the province's borrowing strategy, because the rest of his team is equally transferred.

Since his arrival at Ontario's finance ministry in late 1992, Mr Madden has concentrated on building a team approach to raising the large sums needed to fund the province's ballooning budget deficit — not an easy task when its credit rating was on the skids.

An integral part of the strategy which they devised was a decision to embrace the global bond concept which became fashionable a few years ago. By so doing, the province was able to raise copious amounts through a small number of transactions.

"We have developed large, liquid benchmarks with maturities of five, seven and 10 years and these have served us



John Madden: Concentrated on building a team approach

well in the current climate."
Mr Madden said during a visit
to London last week.
Extensive pre-marketing of
deals, listening to what investors want and awarding mandates on a negotiated basis
rather than through competi-

tive bidding have also worked

This year, Canada's largest

in Ontario's favour.

have prompted some changes to the way Ontario taps the market. "We are having to shorten the time needed to launch a deal and we have to be careful to size and price appropriately," he said. This was evident in

Ontario's recent offering of 10year global bonds — the size was restricted to \$1bn and the yield spread of \$7 basis points over comparable Treasuries was wider than the spreads on Ontario's bonds in the secondary market. But by the end of last week, the spread on the bonds was unchanged, a rare occurrence in the current climate of sliding bond prices.

Although the province will continue to rely on global bonds for around 60 per cent of its funding, like many other borrowers it is becoming more

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fibre jute, the age old packaging material for all kinds of

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ments and structured deals.

It has raised around \$500m under its \$20m medium-term note programme, at 15 basis points below Libor for five-year maturities and Libor minus 20 basis points in the one to three-year area.

Although Mr Madden has made it a priority to be open with the banks in order to garner their support, he has avoided becoming a sitting duck by not making them privy to risk-management decisions behind each deal. "Everyone knows our goal is to get hack into fixed-rate Canadian dollars, but we come home a different way each time," he

Although Ontario still needs to raise a lot of money, its debt burden should get lighter in the next few years. The budget deficit is forecast to drop to C\$8.1bn in the 1995-96 fiscal year, from C\$8.5bn in 1994-95, and to C\$7bn the following year. This should allow its credit rating to bottom out at current levels.

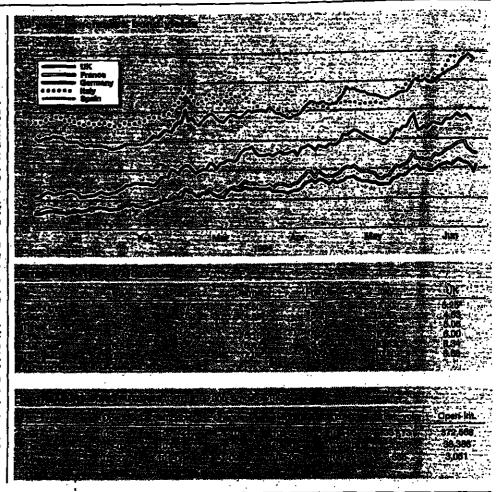
Bankers, who find Mr Madden's homespun attitude of

encouraging dialogue refreshing change to the cloak-and-dagger behaviour of other borrowers, believe that his current job will not be his last. "Although he is handling one of the largest accounts in the world, he will be looking to move on," says one banker, adding that he would be an ideal candidate if the post of chief financial officer at a large organisation became vacant. At 38, Mr Madden has ample time to return to the private sector whence he came (a chartered accountant by training, he came to government from Beneficial Canada where he heid a senior financial post). He rules out a political

He rules out a political career, though his convincing remarks about wanting to serve the people of Ontario and making the world a better place for his children would go down a treat during any election campaign. He even tolerates the incessant flash of a photographer's camera.

But wherever he ends up,

one thing is sure: his future colleagues will end up believing that any successful deal is due to them, not him.



International / Conner Middelmann

The Big Bang comes to Portugal Last week, "Big Bang" came to and a market-maker system. Last, the rise in Portuguese rency remains overvalued and

Last week, "Big Bang" came to Portugal, bringing the country's bond market into line with the rest of Europe and boosting its attractiveness to foreign investors.

foreign investors.

The long-awaited reforms are largely structural and unlikely to change investment flows overnight. But, coupled with Portugal's improving economic fundamentals of falling inflation and a declining budget deficit, they are likely to boost the market's allure in the

medium term.

"These reforms are ambitious for one of Europe's smallest economies, but underline the government's commitment to raising liquidity in this market and increasing its attractiveness to overseas investors," says Ms Wendy Niffikeer, senior economist at IBJ Inter-

Since Portugal joined Europe's exchange rate mechanism in April 1992, it has been working om a complete overhaul of its financial system, resulting in a raft of reforms, most of which took effect last Thursday. They include:

Abolition of a 20 per cent withholding tax on non-resident holders of government debt. "This was the most important reform – without it, the other measures would have been mere gimmicks," says Mr Mannel Pinho, director general of the Portuguese Treasury.

Creation of a screen-based,

over-the-counter wholesale

market in government bonds

and a market-maker system. Retail bond transactions will continue to trade on the stock market.

■ Legislation permitting short-selling and bond lending will soon be passed; this is expected to provide further liquidity and risk-management tools.
 ■ The Bank of Portugal will engage in government bond repos to provide liquidity to the market.

Stamp duty and stock market charges will be reduced; fees and stamp tax on Treasury bond repos have been eliminated.
 A new delivery-versus-pay-

ment settlement system is:
expected to reduce counterparty risk and ensure
smoother settlement.

Non-resident entities will be
able to issue debt in the domestic market after giving four
days' notice.

A screen-based derivatives market, set up by the Oporto Stock Exchange is set to kick off early next year with the launch of futures on government bonds.
Amid recent turbulence in

Amid recent turbulence in international bond markets, Portugal has performed particularly badly. This is partly due to the fact that the higher-yielding, peripheral markets underperformed core markets during the sell-off. The slide was further exacerbated by the Portuguese market's lack of liquidity and the absence of efficient risk-management

short-term rates to bolster the flagging escudo has caused the yield curve to invert, creating the only negative curve in Europe. The resulting negative cost of carry makes it impossible for players to fund themselves at the short end of the curve and invest at the long end, and this has been weighing on the market. On Friday, Portuguese three-month money was trading around 18.6 per cent, well above the 11.15 per cent, yield on the 10-year benchmark.

The yield spread between Portugal and Spain has also widened aharply in recent weeks, especially at the short end. After yielding flat to Spanish bonds in March, Portuguese 10-year bonds now pay a premium of 65 basis points over Spain. The three-year spread is at 174 basis points

However, "even if Portugal offers a large yield pick-up over Spain, that's not attractive when you have a negative cost of carry", says Mr Steve Major, head of bond research at Crédit Lyonnais. "They have to get short-term rates down."

The currency also remains a concern, despite officials' assurances that they are committed to a strong escudo. "We will do everything necessary to support the escudo, and are willing to accept short-term costs to achieve longer-term benefits," said Mr Pinho.

However, some say the cur-

rency remains overvalued and may slip further - especially if short-term rates fall. "Real short-term rates are almost 8 per cent - that's unsustainable in the long run," says Ms Niffikeer, who expects the authorities to let the escudo drift down to around Es106 per D-Mark. On Friday it was trading at Es108.30.

Currency worrise, the negative yield curve, last week's

Currency worrise, the negative yield curve, last week's replacement of the central bank governor and the lack of fresh supply in recent months may overshadow the market reforms, keeping investors at bay near-term. However, once international markets and the escudo stabilise, Portuguese bonds could stage a strong recovery, with the yield spread over Spain narrowing back towards zero, Mr Major pre-

dicts.

Sentiment could be further lifted by good news on the inflation and budget deficit front. Consumer prices rose by 5.7 per cent in the year to May, down from 6 per cent in April, and are expected to fall further, averaging between 5% and 6 per cent this year after 6% per cent in 1993.

After least records cettech.

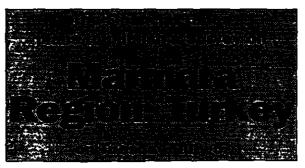
After last year's setback, budget consolidation also appears to be back on track. In the first five months of the year, fiscal revenues have risen by 21.2 per cent over the same period last year — substantially higher than the 4.8 per cent increase in expenditures over the same period.

FT/LES ECHOS

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FT Surveys

EQUITY MARKETS: This Week

Falling dollar offers perfect excuse to sell

NEW YORK

The bearish reaction on Wall Street to Friday's multinational effort to prop up the dollar suggests stocks could take a hammering again this week.

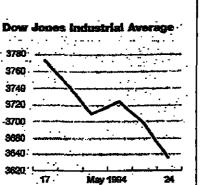
In the hours after the intervention, the Dow tumbled 62 points to end a five-day stretch which wiped a net 105 points off the bellwether index. It was a fitting climax to a trading week dogged by concern over the dollar. The sliding US currency could

make foreign investment in US-denominated securities less attractive, cutting off an important source of cash from the equity markets. It could also make imports more expensive, raising the threat of higher inflation. Most importantly, it could increase pressure on the Federal Reserve to lift interest rates again, which would threaten economic growth and corporate earnings.

The currency markets will remain the main focus for investors this morning. Analysts say the futile rescue mission only served to underscore the dollar's vulnerability. "We need a stable dollar to hold the market together," says Mr Hugh Johnson, chief investment strategist at First Albany in New York.

But others were less certain about the relevance of the currency's plight to the downturn in share prices. "The market right now is moving from a weak technical standpoint, not on the basis of any fundamental changes." says Mr Peter Cardillo, chief strategist at Westfalia Investments in New York. "In the dollar, we have found a perfect

Indeed, on Friday morning stocks



Frank McGurty

were falling long before it became apparent that the central banks would meet fierce resistance in the foreign exchange markets. A wave of computer program-guided selling commenced with the opening bell and drove the Dow down 52 points within two hours. Mr Cardillo believes the programs

Source: FT Graphite

had been set up in response to the previous session's close below the key technical support level of 3,700. To him, that suggests the market is destined to test its April lows of just below 3,600.

The broad-based retreat by technology stocks last week adds credence to such a scenario. On Thursday, the decision by Mr Michael Karfopoulous, an analyst at SoundView Financial Group, to lower his short-term rating on Cisco Systems set off a chain reaction which battered the technology-laden Nasdaq composite. Even Mr Karfopoulous expressed surprise at the impact of his rather tame comments about the computer networking company.

When one stock can cause a whole sector to move so sharply," observes Mr Cardillo, "it shows there are a lot of nervous investors out there willing to dump anything because of the

LONDON Terry Byland

Support levels become a moving target

When one of the most noted bears in London assures us that "the markets are not going to crash", the bulls must indeed be having a bad time; Mr Nicholas Knight, international equity strategist at Nomura Research, added, however, that markets will merely "trade to lower levels in true bear-market fashion", which offered only scant comfort to

That was written before the central banks made their concerted intervention to defend the dollar on

The banks' move inspired a powerful bounce at the long end of the gilt-edged narket and a determined rally to the Footsie 2,900 mark.

This morning, the stock market will be watching to see if currency intervention alone can preserve the

If, as the stock market believes, only action on interest rates can save the day, then share prices will again be

"Support levels" in the stock market have become something of a moving target, with the Footsie 2,920 no longer For the record, the chartists fear

that any further sell-off would leave the Footsie vulnerable right down to

Mr Knight believes that the dollar will remain under pressure until US short rates are materially

higher.
Until the problems of the US dollar are convincingly addressed, runs the market argument, bargain hunters

FT-SE-A All-Share index 1,440 ·17-June 1994 Bource: FT Graphba

in UK equities had best equin themselves with long spoons. On the brighter side, however, selling of equities remains fairly moderate

and international broking houses maintain that there are heavy institutional buying orders waiting to go into UK equities as soon as the outlook becomes more

Views on UK equity market valuations remain favourable, although these are moving targets while bond market yields continue to threaten the 9 per cent level. Even at these levels, Strauss Turnbull

sees an equity dividend yield of almost 4 per cent as indicating that shares are not expensive relative to conventional gilts.

Like many others, Strauss Turnbull warns that the relative against index-linked gilts, now close to a multiple of one, gives no such

For "yield buyers", this is the time to buy UK equities. If bond markets are overshooting wildly in their fear of inflation, then prospective yields of 5 per cent on equities next year imply, according to S. G. Warburg, that equities would be able to hold the line even against yields of 10 per

International offerings / Tracy Corrigan

Liberty Life blazes trail for corporate South Africa

Liberty Life's \$360m to \$500m global convertible bond offering, due to be priced in two weeks, is likely to prove a landmark issue. A successful deal could pave the way for a spate of financines by South Africa's underborrowed corporate sector, a flop could turn off the tan of international investment before the flow has really

The deal, for the country's fourth largest company, was approved at cabinet level as a suitable trail-blazer for the return of corporate South Africa to the international capital markets following the first

non-racial elections in May. In fact, Robert Fleming, which won the mandate to arrange the offering, did not offer the cheapest terms to the company. But the generous indicated pricing of a 6 to 61/2 per cent coupon and a 10 to 12 per cent cent conversion premium for 10-year bonds, non-callable for at least the first five years, was felt to be necessary to attract a broad range of foreign investors

First of all, bearish global international fund managers much more choosy. (In fact, Robert Fleming has indicated that the pricing can be adjusted if the current weakness in world markets wors-

the CAC-40 should recover over

the summer. But there is

market's vulnerability to

gloomy economic news from

to the political uncertainty

Villiers and Bernard Tapie."

the US and Germany and also

in France itself in the approach

concern about the Paris

In addition, South African companies are a little known quantity. The company is doing its best to address this problem, fielding a visit from underwriters and fund managers to Johannesburg last week and hosting a series of roadshows in Asia, Europe and the US this week, when the bookbuilding process begins.

In practice, the decision on whether to buy the deal will for many investors be a decision on South Africa. The fiscal discipline of the new government's first budget, presented to parliament by finance minister Mr Derek Keys last week, encouraged investors and the imminent inclusion of the country in the IFC global emerging market index, at 13 per cent, is set to boost interest in South African

shares generally.
"Liberty Life is a good proxy for South Africa, and the convertible structure gives it a defensive quality which appeals to more conservative investors," said one fund manager on last week's trip.

For investors viewing the company as proxy, there are several attractive features: its broad range of interests, such as brewing and property, mean that it stands to benefit from domestic economic growth. However, the deal also has a keep-well agreement which gives investors concerned about political risk the added security of Liberty's IJK assets which include Sun Life.

Further, the large size of the transaction, which has made some underwriters nervous, is an added incentive for some

The South African stock market, with average daily volume this year of \$63m, is not very liquid, and some investors expect the convertible bonds to be easier to trade than the

Some fund managers will not be able to buy the bonds even if they want to, because they are not rated. (South Africa itself has yet to be rated.) Further, in the US, where sanctions on South Africa were strongly enforced, some fund managers have not yet received approval to start re-in-

However, the reception of two straight equity offerings for South African companies following May's elections bodes

A \$67m offering for industrial and mining giant Anglo-vaal, priced late Thursday at \$27.33, was 2.7 times oversubscribed, according to arranger SG Warburg, with just over half the demand from the US. Meanwhile, a \$70m offering for retailer Pepkor is due to be priced this week.

OTHER MARKETS

ZURICH

Ares-Serono, the Geneva-based human fertility drug specialist, has much to talk about at its annual press conference today, writes Ian Rodger. Hard hit last year by pressures from governments on drug prices, it has nevertheless boldly intensified its commitment to pharmaceuticals in recent months. The diagnostics division has been sold. minority shares in the Israeli beta interferon subsidiary Interpharm have been mopped up and big investments have been made in new plant.

Tomorrow the directors of Logitech, the world's leading maker of mice, scanners and

other peripherals for personal computers, face the press. Net profit trebled to SFr27.8m in the year to March 31. But an unexpected sales slump in the three months to March showed again that the PC sector can

spring a surprise at any time. Last Thursday's news of a £124m provision at Rothmans International has added an additional negative factor to the assessment of Richemont. the Swiss group that controls Rothmans and a gaggle of huxury goods companies brought together in Vendôme. a new holding subsidiary, last

Richemont reports results for the year to March 31 on Friday. Net income was

broadly flat at £96.6m in the first half, but the group warned in December of weaker sales of luxury goods in some

FRANKFURT

The Daimler-Benz supervisory board is expected to meet on Wednesday to elect a successo to Mr Edzard Reuter, the management board chairman. who steps down next year. Mr Juergen Schrempp, head of the Daimler Aerospace subsidiary, is widely tipped for the job. Adam Opel, GM's German subsidiary, holds its annual news conference tomorrow and Audi's AGM

MADRID

Sevillana, the electricity

distributor in the south of Spain, which last month reported a 17 per cent increase in first-quarter after-tax profit, holds its shareholders meeting on Wednesday. Last week, James Capel downgraded the stock, saying that the Spanish vvernment's official estimate of the sum owed to the company in respect of its 50 per cent stake in the Valdecaballeros nuclear plant under moratorium had been set at Pta170bn, substantially

last year. Hoare Govett, which mends the stock, along with that of Bankinter, says that both offer an almost

than 50 per cent-owned by

non-Spanish institutional

investors, has reported a 7.3

per cent rise in net profits for

irresistible combination of high rates of profitability, strong balance sheets and low market ratings. **PARIS** The market, under pressure since the start of the year,

mites Alice Roomsthorn

on economic fundamentals

June 1994

to next spring's presidential elections. "The political situation is

a factor," said Mr Jean-François Mercier, chief French economist at Salomon Brothers. "The presidential campaign raises the risk of various candidates pledging themselves to more found no respite last week, expansionary policies to Analysts and economists recapture lost votes from the are convinced, however, that agogues: Philippe de

TOKYO

Continued uncertainty over currency fluctuations are expected to keep investors away from the stock market, writes Emiko Terazono. Figures this week are likely

to provide further evidence that the economy has bottomed, but may also reveal that previous expectations of an imminent unturn may have been over optimistic. Industrial production data

on Wednesday are expected to show weak output in May, while Tuesday's May unemployment figures are likely to highlight continued sluggishness in the labour

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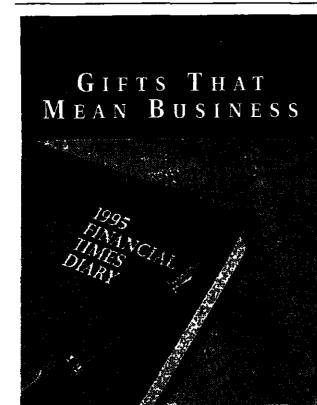
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HONG KONG

Domestic politics may dominate hearts and minds in Hong Kong this week, but it is unlikely to have anything more than a marginal impact as investors' attention remains firmly on the US dollar, interest rates and long bond

yields, writes Louise Lucas. Retail investors have gained the upper hand in the absence of institutional buyers and international players and there is scope for an upwards spike, albeit on thin turnover, in the event of progress on talks between Britain and China over the colony's future.

Compiled by Michael Morgan



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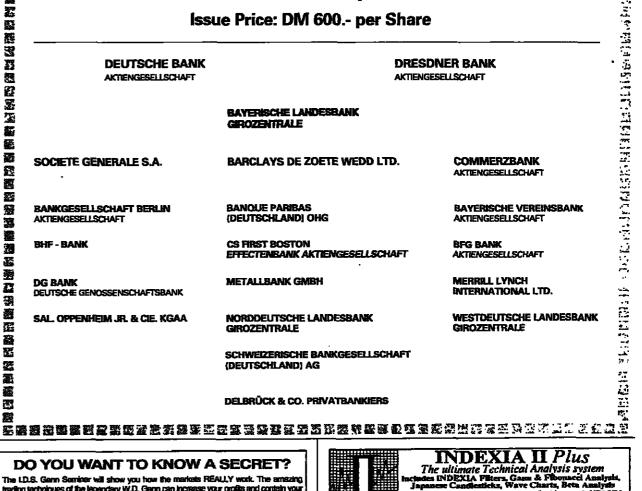
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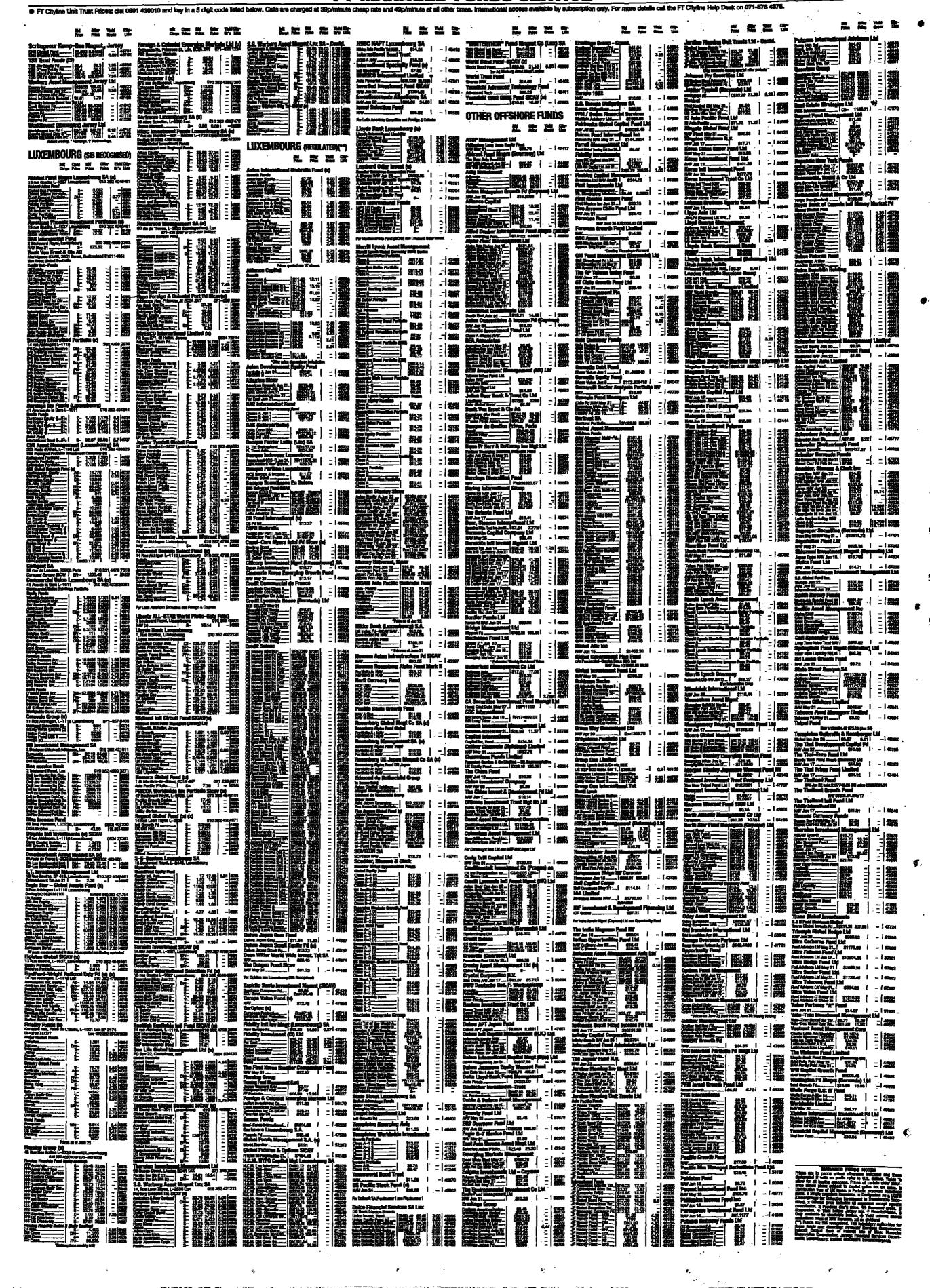
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MONDAY

HK airport progress review

The Joint Liaison Group (JLG), which deals with the details of the colony's 1997 transfer to China, reconvenes. nmentators will also be looking for signals of progress on the Hong Kong airport, which has been held up as a result of China's concerns about its financing.

US and Canadian trade and agriculture ministers meet in Chicago in an attempt to resolve their farmtrade dispute.

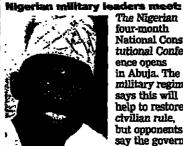


Washington has threatened to impose a quota at the end of July if the Canadians fail to agree to curbs on fast-rising exports of durum wheat, used for pasta. Ottawa has threatened to

retaliate against a range of US prod-**US commerce secretary** Ron Brown, on a trip to Latin America

accompanied by 22 business leaders, inaugurates a US commercial centre in São Paulo. He meets Argentine President Menem on Thursday in Buenos Aires and President Frei of Chile on Friday.

Australia's prime minister. Paul Keating, leaves for a three-day visit to Indonesia, where he will have talks with President Suharto. Australia has been easer to promote trade ties with its nearest south-east Asian neighbour. However, the visit has been overshadowed by the Indonesian government's decision to revoke licences for three Australian news magazines.



The Nigerian four-month National Constitutional Conference opens in Abuja. The military regime says this will nelp to restore civilian rule, but opponents say the govern-

ment is stalling and should make way for Moshood Abiola (above), the winner of last year's annulled presidential poll, who was arrested last week.

Vat in harmony: The European Commission opens a conference on European enterprises and VAT. Business leaders and Brussels officials will address the problem of how to harmonise value added tax regimes in the Union by 1997.

Chess: Gary Kasparov faces bis younger challengers in the second leg of the \$750,000 Intel Grand Prix in New York (to June 30). India's Vishy Anand won the first leg at the Kremlin.

FT Survey: Russia Holidaya: Venezuela.



TUESDAY

Korean nuclear crisis

Deputy prime ministers from North and South meet to discuss arrange-ments for a summit between the leaders of the two countries in an attempt to resolve the crisis precipitated by the North's nuclear programme.

The Japanese government, against a background of fresh political turbulence, may announce a package of deregulation and tax reform measures in an attempt to curb the high trade surplus. Events will be closely observed by Washington and foreign exchanges, and may affect the value of the yen, the week after it attained a new high against the dollar.

China's eight-year-old bid to reigin the General Agreement on Tariffs and Trade enters a crucial stage with negotiations in Geneva today. Following Washington's decision in May to renew China's most-favoured-nation trading status and to dissolve the link between this issue and that of China's human rights record, the Gatt negotiations are bound for the home straight. Beijing hopes to become a member by the year-end, so that China can become a founder member of Gatt's successor, the World Trade Organisation.

Chile's president Eduardo Frei meets US President Bill Clinton in Washington, Mr Clinton has already assured Chile that it will be next in line for a free-trade agreement, but the necessary "fast-track" negotiating authority to enable that has run into difficulties in Congress.





Jean-Bertrand Aristide (left), will speak on efforts to restore democracy in his country at the **National Press** Club in Washington. He is likely to repeat his demand for US military

action to allow his return to Haitl.



version of one of the most famous of all Impressionist paintings "Un bar aux Folies Bergere" is on offer at Sotheby's in London tonight. It is sketchy by comparison

of about £3m is anticipated. In the same auction is one of the 10 paintings of poplars completed by Monet in 1891 (above). It might also fetch £3m.

with the finished product, but a price

FT Survey: Computer Networking.



Hong Kong awaits vote



Chris Patten (left) puts bis democracy proposals for Hong Kong to the vote at today's meet-ing of the Legislative Council (LegCo). The governor first mooted his proposals to

broaden democracy in the colony in October 1992, immediately incurring Chìna's wrath.

China accused Mr Patten of violating the Basic Law, which lays out the constitution for Hong Kong after transi-tion, and said that it would dismantle representative bodies upon assuming sovereignty in 1997.

Some 17 rounds of talks between Britain and China failed to resolve

Bulgarian debt: Bulgaria and Deutsche Bank are due to sign a debtrescheduling deal which wili reduce the country's US\$9.276n foreign com-mercial debt by US\$3.86n.

Last November Bulgaria and some 300 London Club commercial banks, chaired by Deutsche Bank, agreed to reduce principal on the debt, which was racked up by the former Communist regime, by about 50 per cent, and they set a mid-1994 deadline for agreeing final terms.

Bulgaria plans to make an advance payment of more than US\$700m. The country hopes that settlement of the debt will attract foreign support in its transition to a market economy.

India's prime minister P.V. Narasimha Rao begins a three-day visit to Russia.

De Beers of South Africa, which controls at least 80 per cent of world trade in rough (uncut) diamonds via its London-based Central Selling Organisation, reports first-half-sales today.

These are expected to at least match, and perhaps to exceed, the record US\$2.54bm reported for the first six months of 1993.

Safety in numbers: 1,321 quoted companies, about 95 per cent of those in the first section of the Tokyo stock exchange, hold annual shareholders' meetings today. The companies deliber ately meet on the same day in order to frustrate the efforts of sokaiya, extortionist gangs who blackmail companies not to disrupt AGMs.

Rowing: Henley Royal Regatta, premier aquatic event of the English summer, opens (to July 3).

Cricket: Oxford University play Cambridge University at Lord's (to July 1).

FT Survey: Business Books. Holidays: Chile, Costa Rica, Malta.



THURSDAY

Day gains a leap second



minute will have 61 seconds, so as to bring atomic clocks in step with solar time which is defined by the Earth's elatively erratic rotation. Atomic clocks are accurate

to one second in a million years, but the Earth is gradually slowing down.

Bill Birch, New Zealand's finance minister, is due to deliver the country's annual budget. It is expected to show the first fiscal surplus since the late-1970s. Mr Birch has cautioned forecasters against being too optimistic, but many economists are predicting a surplus between NZ\$200m (US\$340m) and

An important question is how NZ uses this "reward" from a decade of hard economic reform - and to what extent it chooses to meet social goals, such as a reduction in unemployment, at the expense of faster reduction in public debt.

Abkhazia talks: United Nations-sponsored talks resume in Geneva between the Georgian government and Abkhaz senaratists on a permanent political settlement for the embattled province. Under the terms of a ceasefire accord signed in Moscow in May, some 3,000 Russian troops are being deployed to police the Abkhaz border with the rest of Georgia. Over 200,000 non-Abkhazis fled the region during brief but bloody fighting last September.

UK by-election: Labour, the main opposition party, defends the Monk-lands East parliamentary seat near Glasgow against a strong Scottish Nationalist party challenge. Labour has a big majority in the constituency which was held by John Smith, the party leader who died in May. But the party is under pressure over allegations of corruption on the local council.

Afghan president Burhanuddin Rabbani's term expires. Prime minister Gulbuddin Hekmatyar has warned his battle to topple the president could intensify if Rabbani does not step down on time.

Fundamentalists in Bangladesh have called a general strike to support their demand for the death of feminist writer Taslima Nasreen on charges that she insulted Islam.

Cricket: Third test between England and New Zealand begins at Old Trafford, Manchester (to July 3).

FT Surveys: Executive Cars and Chemicals and the Environment. Holidays: Ecuador (Bank Holiday), Sri Lanka, Zaire.





French troops deployed in Rwanda's south-west aim to prevent further slaughter



Russia's sell-off continues

The largest sell-off of state property in the world formally enters its second phase. Foreign investors are being encouraged to join in.

Germany takes over the six-month rotating presidency of the European Union. It is keen to promote opening up to eastern Europe, and to demon-strate that the Maastricht framework of closer co-operation on foreign policy and internal policing, together with enhanced powers for the European Parliament, will succeed.

Roman Herzog, Germany's new president and former chief justice of the constitutional court, assumes his largely ceremonial post

EU insurance: Today is the deadline for member states to implement directives completing a single market in insurance.

New currencies are due to be introduced by Uzbekistan, the Som. and Brazil, the Real - the country's fifth currency since 1986.

Holidays: Bangladesh (Bank Holiday), Canada, Ghana, Pakistan (Bank Holiday), Taiwan, Thailand.

WEEKEND

Historic Tour de France

Europe's premier cycling event begins on Saturday in the northern French city of Lille (to July 24).

The sweep into England, which this year comprises a symbolic stretch through the Channel tunnel as well as stages through Brighton and Portsmouth, will mark the tour's first trip across the Channel since 1974, when a circuit race was held around the Plymouth by-pass. The British stages will take place

near the beginning of the 22-day endurance test which ends in Paris.

Paraguayan president Juan Carlos Wasmosy on Saturday starts a working visit to Britain. It will be the first recorded visit to the country by a serving Paraguayan head of state,

Guinea-Blessu nolls: Sunday sees presidential and parliamentary elections in this west African state.

Sumo wrestling: 15-day Grand Sumo Tournament opens in Nagoya, Japan, on Sunday.

Edited by Patrick Stiles and Martin Mulligan. Fax: (+44) (0)71 873 3194.

Other economic news

In the aftermath of the Fed's attempt to defend the dollar against the yen last week, the US and Japan will be the key economic focus this week. A clutch of Japanese statistics should indicate that Japan's recession has bottomed out. and there are mixed signs of

Tuesday: Analysts expect today's data will show that Jananese unemployment rose to 2.9 per cent in May, from 2.8 per cent in April, while May's retail sales were 2.9 per cent lower than May last year. In the UK, the Treasury's

revised economic forecast is

expected to point to an increasingly healthy recovery. Predictions for 1994 gross domestic product growth are likely to be up from the carlier figure of 2.5 per cent, while inflation forecasts are likely to be down from 3.25 per cent. Thursday: A spate of US eco-nomic indicators today and tomorrow are expected to show

the recovery remains strong but spending has slowed slightly. Today's data is likely to show a small rise in factory orders in May, while Friday's purchasing managers' index is likely to reflect the healthy state of the manufacturing sec-ACROSS

1 Justification for V-sign (11)

7 A friend brings drink back (3)

9 Though solid in form, they may have tragile footing (5)

10 Rouse the flery Celt, perhapsi

12 It may be forced to obtain a decision (5)
13 Doctor liaised for sitting

clorgy (7)
15 A drink all round when there's profit! (4)

18 A letter less than perfect in

18 A letter less than periect in conception (4)
20 A name is confused ~ result of this? (7)
23 Metnorial of old priest outwardly Roman Catholic (5)
24 Responding to a phone call about disturbing news (9)
26 Man of action, in his turn (9)
27 Foreign friend has to leave

27 Foreign friend has to leave with another (5)

28 It marked the passing of the

horse-drawn vehicle (3)
29 Another view of clairvoyance

nont (7) 5 Seaborne

				تم مد م
Day Released	Country	Recording Statistic	Medias Forecast	Previous Actual
Mon	US	May existing home sales		4,12m
June 27	New Z'nd	June trade balance		N Z\$340 m .
Tue	US .	May new home sales	679,000	883,000
June 28	US	June consumer confidence	89.0	87.6
	US	May export price indx		0.7%
· · ·	US	Mey Import price Indix		0.8%
	US	Johnson Redibook w/e June 25		3,6%
	Japan	May unemployment rate	2,9%	2.8%
	Japan	May retail sales*	3.6%	3.5%
	Japan	Wholesele price indx, 11-20 June		0:096
	Canada	Apr manufacturing new orders	1.196	23%
	Canada	Apr menufacturing shipments*	1.2%	27%
	Canada	May indust production price indx*	0.4%	0.2%
Wed .	US	1st qtr GDP, final	3%	3%
June 29	US	1st qtr GDP, deflator final	2,8%	2.8%
	US	1st qtr, after tex corp/ste profits	3.7%	-3.7%
· ·	US	June agricultural prices		-1.4%
	Japan	May industrial production?	3.4%	1,9%
	Japan	May shipments)	v	-2.1%
Thu	us ·	Initial claims, w/e June 25	350,000	352,000
June 30	us	State benefits, w/e June 18	-	2.79m
	us	May personal income	0.6%	0.4%:
	US	. May personal consumption, expand	0.2%	-0.196
	us	May factory orders	-0.8%	-0.1%
	US	Mey factory inventories		0.2%

		and the state of the	Station	s to be n	descort fi				
Day Helephed	Country	Recoomic Statistic	Medias Forecast	Previous Active	Dey	all risky	Economic Statistic	Modium Poincella	Presions Actual
Mon	US	May existing home sales	****	4.12m	Thu U	S	M2, We June 20	\$3,5m	\$3.100
June 27	New Z'nd	June trade balance	-1.1.	N2\$340m	· * Jame 30 . Ja	ibau :	May construction orders		*3 -7.8%
Tue	US .	May new home sales	679,000	683,000	(conf) Ja	epen .	May housing starts		11.0%
June 28	US	June consumer confidence	89.0	87.6	Ja	\$P\$6	May construction states		5.1%
	US	May export price indx		0.7%		ence :	May unamployment rate	123%	12.396
	US .	May Import price Indix		0.8%	() (a	anatia	April reel GDP, factor cost	0.8%	Daise" -
	US	Johnson Redibook w/e June 25		3,6%		18 Bb	May content s/c	AST.1bit	\$1,09bn
	Japan	May unemployment rate	2,9%	2.8%	Fri 185	3	May leading indicators	0.1%	0.0%
	Japan	May retail sales*	3.6%	3.5%	July T U	S	June Nik Ass Pirch Managers	ndx 57.5%	5 57.7%
	Jepan	Wholesale price indx, 11-20 June		0.096	· ju	\$	May construction agending	1%	0.6%
	Canada	Apr manufacturing new orders	1.196	23%	Ja	r) neds	Máy codsumer priçõe kidic, net	ion** 0.8%	0.8%
	Canada	Apr manufacturing shipments*	1.2%	2.7%	, da	achain:	Offito, ex-perishables	0.9%	0.9%
	Canada	May indust production price indx*	0.4%	0.2%	Ut	κ :	vine chart just bricip menades	indx-	59.2%
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June 29	US .	1st qtr GDP, deflator final	2,6%	2.6%	· G	eimeny:	April capital s/c		Dm1,8be
	US	1st qtr, after tex corp'ete profits	3.7%	-3.7%		emzerý, "	June gast at living, position	Œ1% ·	0.2%
	US	June agricultural prices		-1.4%	. · · · · · · · · · · · · · · · · · · ·	ernany	Jane cost of living prelim.	2.9%	2.9%
	Japan	May industrial production?	3.4%	-1.9%		emany 👌	May import prices	0.3%	0.3%
	Japan	May shipments)		2.1%	G	emieny.	May import prices*	0,8%	0.3%
Thu	US	Initial claims, w/e June 25	350,000	352,000	· · · Ra	iv i	May belence of payments: "	Zero .	13.477
June 30	us	State benefits, w/e June 18	-	2.79m		by .	May official reserves	L90.5Tr	1.67.9Tr
	US	May personal income	0,6%	0.4%	, Ita	dy .	May trade belance, ex-EC	10.717	. [2.17)
	US	. May personal consumption, expand	0.2%	-0.196	Ве	elgivm :	June consumer prices indic.	TO HAR THE SE	0.3%
	US	May factory orders	-0.8%	-0.1%	Ве	elgluni	Trans consumer buces jump.		2.6%
	116	Mary Gratests Investorian				40. 40	Line and the same of the same		

DOWN

1 The futility of conceit (8)

2 Time to dine on mince (3)

3 Ben is foreign dramatist (3)

4 A crime upsets a whole continued to the continued of the co nunt (7)

Seaborne territorial detachment from the Arctic (7)

Produce I turn into a balanced diet (9)

Father tries moving piano first (6)

Bet m chans not being all in 8 Bet on chaps not being clerics 14 I leave ridiculous organisa-tion, it's farcical (9) 16 Here's hoping I spring a surprise (8) 17 Dries washing on lines or cinema (7)
20 Out of place competitor (4.3)
21 It's becoming a type of fraction (6) 22 A French wine cartel is broken up (6) 25 Rising back writing for

MONDAY PRIZE CROSSWORD No.8,490 Set by DANTE

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of 235 Pelikan vouchers will be awarded. Solutions by Thursday July 7, marked Monday Crossword 3,490 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 SHL. Solution on Monday July 11.

Winners 8,478

Solution 8,478 Dallas Law, Faringdon, Oxfordshire
E.J. Hall, Liverpool
G.W. Hands, New York, USA
R. Miron, London W2
R. & A. Sanders, Nether Poppleton, Yorkshire
R.P. Wilson, London SW14

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Of broking and jobbing the Pelikan's fond, See how sweetly he puts your word onto bond. Selikan 🖰

JOTTER PAD

IN THIS SURVEY

olution to evolution; the economy is already restruc-☐ The military: A legacy of the communist state has ☐ Commercial banking: End of the Wild West ☐ Agriculture: Recent reforms in the sector are full D Foreign affairs: The mood towards foreigners has





Russians will decide their own future

ooking at Russia today can be done through three possible prisms. Through one, we would see economic and political improvement, albeit springing from - and to an extent drag-ging with it - considerable

Through another, we would see a further and perhaps even more damaging confrontation between political powers and or economic collapse – albeit not leading back to a reassertion of a communist regime.

The final one is muddling through - albeit with a question mark over how far

"through" gets you, and to Let us take the first, and most pleasant point. After the elections of last December which produced such a strong showing for the right-and-left nationalist groupings, the trim-ming of the radical reformers from the cabinet did not result in an abandonment of economic reform. On the contrary: in many ways the government under Mr Victor Chernomyrdin, prime minister, squeezed more tightly on credit and inflation, to keep the latter under 10 per cent a month - good by recent Russian stan-

In March, Mr Michel Camdessus, the managing director of the International Monetary Fund, went to Moscow to agree

~ 44 Biller **26**

a loan of \$1.5bn as the second part of a systemic transforma-tion facility - a soft loan to Russia which assisted in generating further lending from the World Bank and greater international business interest and

confidence. At the same time, Mr Anatoly Chubais, the deputy premier in charge of privatisation, has completed his great task of giving away Russian state industry to the population in exchange for vouchers. The next phase, in which the remaining shares will be bought for money and when, it is hoped - and there are some signs that the hope is realistic. -Russian and foreign investment begins to restructure these companies, should now

in part, this has been made possible by a political truce which contrasts extremely favourably with the fevered and inimical relations which existed between President Boris Yelisin and his government on the one hand and the former Supreme Soviet on the other for most of 1992-93.

The leaders of the two parliamentary houses are a presidential ally - such as Mr Vladimir Shumeiko, speaker of the FedNo one can say which of three possible courses Russia will take as it struggles to transform itself: there are far too many imponderables, an assumption of bad and dishards the control of the part o writes John Lloyd. The west can do little to influence the outcome

eration Council or Upper ber Under this general peace, House – and a potential oppo-nent turned ally, such as Mr Especially in Moscow and St House-and a potential oppo-nent turned ally, such as Mr Ivan Rybkin, speaker of the State Duma or lower house. Although an early vote by the Duma released the ringleaders of the parliamentary revolt of October last year, a more recent one, in June, con-firmed a tight budget on a second reading in spite of intense pressure from the military and industrial lobbies. The constitution which was

voted in on a referendum in December 1993 unambiguously confers most power on the president, greatly moderating the struggle for primacy between the legislative and executive branches. The armed forces - including the military, the Interior Ministry and the re-vamped security force, the former KCB - are directly subordinated to the president and so far continue to show loyalty of the kind which brought them in on his side, if belatedly, in the confrontation with the Supreme Societ last Octo-

Petersburg, the effects of this become more and more obvious, as shops begin to transform themselves from mere distribution points to much more attractive sales; venues,

as a wider range of goods become available, and as competition begins between compabanks and financial companies, though many are still weak, now begin to produce larger and more powerful entities which are beginning to shape up to foreign competition and are training staff in the skills to make that possible. Let us take the second prism.

Through it, one sees a political and economic climate which is not peaceful, but static with ious movements below the surface. The tight budget has been passed by parliament, but most economists and politicians believe it will be impossible to meet, and that it will buckle before the military and, other demands - sparking high inflation, perhaps hyperinfla-tion, by the end of the year. period at the beginning of the year which saw him disappear from view for weeks on end, is still detached from government Privatisation, though its first stage is formally accomplished, has mainly made quasi-private and is given to governing by decree through a closed inner monopolies of what were previous state monopolies - that is, circle of advisers. less under any kind of control in the states surrounding

but desperately poor.

which might have moderated their predatory and uncompetitive behaviour. The parliamentary lull is also temporary, on this view. It is the period in which the opposition forces – especially the ultra-nationalist Liberal Democratic Party led by Mr Vladimir Zhirinovsky, the communists, and others - are extending their organisation and support, ready for an assault on the presidency and the government later in the year when the economic situa-tion worsens.

The constitution is not really

accepted by many of the political parties, and may not prove robust enough to withstand

honest government on the part of most of the public the organised crime instils fear, most of all in those trying to start or maintain busine The last year has seen vio-

lent deaths of a number of bankers and prominent businessmen: their fellows now huddle in heavily-protected offices behind security guards. Russia, conditions are mostly worse - the Baltic states, espe-At a more mundane - but per-haps as damaging - level, widecially Estonia and Latvia, are spread tax evasion deprives the state of huge amounts of tax revenue and contributes to its an exception. In particular, Ukraine continues to plunge weakening as well as to the decay of the infrastructure. downwards economically and to produce political stasis-a state of affairs which impacts A last turn of the prism. directly on Russia, since the Muddling through - which Ukrainian region of Crimea is might describe much of the policy this year - has the attractiveness to the governing seeking closer ties with Russia and eastern Ukraine also supports a pro-Russian policy in elite and to many others of contrast to the still-radical

implying no radical change. Inflation may go up, but may nationalism of the west of the egain be corrected. Politics will The Caucasian states, though no threat, are be at times unstable, but no one powerful enough has enough stake in violent change extremely unstable, as is Tajikistan. The other Central to attempt to institute it. Privatisation does not produce much Asian states are stable enough, improvement in enterprise Crime is now an epidemic, behaviour initially but, bit-by-

changed greatly Page VII ☐ Editorial productions Philip Sanders bit, the better managers and companies find it in their inter-

est to modernise and restruc-ture - leaving the bad to decay and die, even if preserved long after effective extinction to maintain employment. The nationalists and the communists continue to exercise a malign influence on policy, especially foreign policy - but not so much as to turn the country back into autarky or outright hostility to the

west, or to any other group of states - Russia is too weak for that kind of adventure. Mr Yeltsin does not innovate but is not toppled: parliament does not bring in the necessary legislation but does not make another grab for power: the government does not fully con-trol the economy but is not so weak as to lose power entirely. Through all of this, the tender shoots of private enterprise continue to grow as best they can - sometimes failing, some times partially succeeding, but generally increasing.

No one can say which of these courses will be closest to the one which Russia takes: there are far too many imponderables. The west can assist Russia to avoid the worst and can contribute at the margins by helping Russians to help themselves wherever the goals are clear and achievable. But ultimately, as always, the fate of Russia depends on the Rus-sians themselves.

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EUROBANK CONSOLIDATED BALANCE SHEET

(on December 31, 1993, mln. FRF)

		 _		
Capital + reserves		1 529	Distribution of ne	t assets :
Participating loan stock		1 897	(CIS 249
Capital base total	•	3 426		OECD 629
Net balance sheet total (after deduction	of funded			Others 149
liabilitics)		14 156	See E. S.	
Provisions	-	4 637		
Balance sheet total	<u> </u>	18 793	6	

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wo and a half years after President Boris Yeltsin launched radical market reforms, the Russian economy may finally be settling from revolution to evolution.

The most important role of reformers now is to prevent silly things from happening," explains Mr Sergei Vasiliev, deputy economics minister and one of the few radical reformers still in government.

Six months after the election of a parliament dominated by ultra nationalists and Communists, and the departure of senior reformers such as dep-uty prime ministers Mr Boris Fvodorov and Mr Yegor Galdar, this may sound a bleak

But Mr Vasilley believes that in order to continue its tortuous march towards a market economy, Russia "doesu't even need very active reformist policies at the moment. The necessary measures are of a long-term nature and require

Professor Yevgeny Yasin chief economic analyst for President Yeltsin, takes this argument one step further, claiming that Russia has already completed "the main reforms" needed by its economy. "Now we need painstak-ing polishing work," he says, citing for example, the need for a more efficient banking and judicial system, and for a crackdown on organised crime.

At the alarmist end of the spectrum, Mr Sergei Glaziev, head of parliament's economic reform committee, warns that an expected 25 per cent drop in industrial production this year will mean the "liquidation" of entire sectors of Russian indus-

But dramatic Russian statistics tell only half the story of an economy that is already restructuring in what an IMF economist described as "a completely chaotic, unplanned

Reformers who feared the worst can pride themselves on the fact that reforms have not been rolled back

way". With services exceeding 50 per cent of gross domestic product for the first time in Russian history, industrial out-put, considered the most sacrosanct economic indicator under Communism, now only accounts for 30-35 per cent of GDP. A booming private economy in services and trade is under-reported and virtually untaxed. As a result, up to 40 per cent of the economy may not be taxed at all, and GDP may be undercounted by as much as 15 per cent.

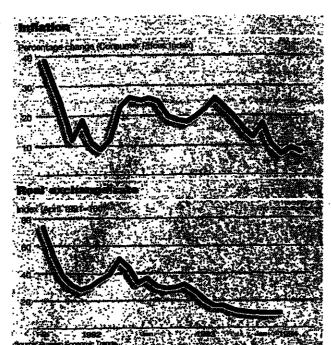
In the pursuit of attempts to drive down inflation and set the foundations for economic th. 1994 has marked the onslaught of the tightest monetary and credit policy since Russia's botched attempt at Polish-style shock therapy in January 1992.

The paradox is that the squeeze is being operated by Mr Victor Chernomyrdin, the prime minister who six months ago floated the idea of fighting inflation by "non-monetary means", and by Mr Victor Gerashchenko, once dubbed the "worst central banker in the world"

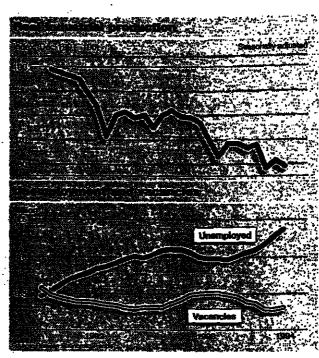
The belated reformism has also been accompanied by some clumsy attempts to return to greater state control over the economy in order to restore order" to it. For example, one of Mr Yeltsin's least enforceable decrees issued this month, designed to crack down on tax evasion, require companies to report any banking transactions greater than \$10,000 to the tax authorities.

But reformers who feared the worst can pride themselves

on the fact that reforms have







prevalent in Russia, the present financial policies "mean

that enterprises will be dying

very slowly in Russia, which is

not a bad thing. We can always

consider the possibility of a

social outburst but I don't

think there will be something

But nobody knows exactly

what the effects of these finan-

cial policies will be on overall

employment, not least because

of uncertainty over whether

the government will keep to

them. Unemployment, mea-

sured in terms of job-seekers,

is still remarkably low at 1.8

per cent. But it is already far

greater if one counts the num-ber of people who are being

kept on by enterprises but are

The main question over the next six months is whether the

government will adhere to its

financial policies when enterprises start closing down.

has yet to phase out so-called "directed credits" to the econ-

omy, they carry real interest rates for the first time.

Although subsidies are still

being found for the biggest

enterprises - "those with good

connections to the president

Although the central bank

not being paid.

sudden in this sphere."

The economy is already restructuring, reports Levia Boulton

From revolution to evolution

not been rolled back - not least because a middle-of-the-road government which proposed to change tack turned out to be ideologically bankrupt.

Mainly because the departure of the radicals left Mr Chernomyrdin and Mr Gerashchenko carrying full responsibility for any resurgence in inflation, it has remained under 10 per cent a month since February, its lowest level since August 1992. An end to subsidised credits

to all enterprises except for agriculture, coalmining, and the biggest factories means that companies face a real prospect of closure unless they restructure and as long as the government maintains its tight policies. Related attempts are being made to force companies to repay the Rbs22,000hn in debts they have accumulated with each other in an attempt to cushion themselves against the shock of government poli-

"How can you have a market economy where people don't pay their debts? We have to teach people to give back money they owe," says Prof.

At the same time, a mass privatisation programme, put-ting 70 per cent of industry into private hands by July 1, has been allowed to draw to a successful conclusion. Foreign trade liberalisation has continued, with the lifting of quotas from next month on most exports including the oil and gas which are Russia's main ried through, these will effectively remove the last controls on domestic energy prices, as well as abolish an important source of corruption.

President Yeltsin, who returned to the economic stage with a host of decrees this month, also ordered the scrapping of exemptions from export and import duties which have cost the country dear. Mr Ser-gei Alexashenko, deputy finance minister, estimates that these and other tax breaks may represent as much as 7-10 per cent of GDP.

Mr Alexander Shokhin, deputy prime minister responsible for the economy, says the authorities' decision to stick to financial orthodoxy reflects a "realisation that there are no extravagant means for stimulating economic growth". Mr Dmitry Tulin, deputy

governor of the central bank, claims the new stance is due to a "general change in the mentality of monetary authorities... who, by their own expe-

rience, not through textbooks, realised there is a very simple correlation between money supply growth and the growth

Mr Chernomyrdin can also cite as his personal achieve-ment the relative political stability which has followed the election of the new parliament and the adoption of a new constitution setting out a clear division of powers. Confounding predictions of further conflict between the executive and the legislative authorities, he recently cajoled powerful conservative forces in the new State Duma into accepting an anti-inflationary budget for

Particularly revealing of the political elite's new understanding of economic realities was a refusal by the energy agricultural lobstrongly represented in the Duma - to support spending demanded by the military. This would not only have wrecked a budget already under threat from falling tax revenues at a time when the government says it has collected only 36 per cent of tax receipts due in the first quarter of this year. It would have meant undermining their own energy and farming subsidies through a sharp increase in

inflation because Russia

finances its budget deficit,

Rbs15,000bn in additional

which will be at least 10 per cent of GDP this year, mainly by printing money. Lying not far beneath the surface of reformers' relief over the avoidance of "silly" decisions, is concern that more is not being done by the government to push through

structural reforms. Mr Alexashenko, the reformist deputy finance minister responsible for the budget,

says "the most dangerous problem is that we have no strategic thinking in the govern-

"To the extent that the government is not meeting all the needs of declining industry, there is shock therapy going on but it is a passive policy," agrees an IMF economist. However, there are many sectors which require a pro-active policy and in which the govnt has to play an organising role."
An industrial policy, provid-

ing selective government support for sectors and companies most likely to achieve growth, is described by the government as urgently-needed but has yet to materialise.

This year, for example, Russia is to spend Rhs10,000hn on coal subsidies, representing almost a tenth of budget revenues projected at Rhs124.000km But none of this money will restructuring which is the only way to secure the Russian coal ndustry's future and stop a debilitating drain on the comtry's finances

"There has been a chance for

two years to close down at least one mine," says Prof Yasin. "Maybe there is not enough political will now, maybe different people are needed in office."

The government is also failing to build up an adequate social safety net to cope with future unemployment and prevent poverty.

Earlier this month. President Yeltsin forecast that the fight against inflation would lead to regional" unemployment in specific parts of the country, such as Ivanovo province where textile plants have been on the verge of closure for

Mr Vasiliev argues that even

140-150 per cent average interest rate calculated by the International Monetary Fund as the benchmark which the central bank agreed to shadow in the memorandum of understand-

Explaining the caution, Mr Tulin says that "the monetary factors of inflation are under the control of the central bank except for one: the size of the budget deficit." He says the restrictive policies must also be accompanied by an industrial policy.

However, because of the government's likely failure to implement an industrial policy to minimise the damage to Russian industry, foreign investment appears to be Russia's best hope for restarting growth in its manufacturing

Mr Chernomyrdin is due to meet international business leaders today to discuss obstacles facing foreign investors in Russia. Prof. Yasin says the government must take the lead in insuring foreign and domestic investors in order to get

growth going.
When Mr Chernomyrdin travels to Naples to attend the G7 summit with President Yeltsin next month, he will he renewing pleas for foreign investment. He will also be essing for early negotiations for an IMF standby credit of \$3bn and a long-term rescheduling of Russia's \$80bn of for-

eign debt.
Although the west has been sidelined in its importance to domestic reforms since the radicals tried and failed to carry out shock therapy with west ern support, the good will of the western financial community remains crucial to Russia's balance of payments. The IMF has calculated that Russia, which has overestimated its trade surplus for this year, faces an external financing gap of \$25hn in 1994, compared to

Russia has been unable to come to any arrangements over the \$26bn it owes

commercial banks Because of the way in which the foreign debt was con-tracted, with bunched-up matu-

rities, an inordinately heavy burden of debt payments - \$14.5bn of principal and \$6bn in interest - falls due this year. Part of that burden has already been alleviated by an agreement this month rescheduling \$7hm in debt owed to the Paris Club of creditor governments in 1994.

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So far, however, Russia has heen unable to come to any arrangements over the \$26bn it owes commercial banks because of its refusal to accept that banks should be able to seize state-owned assets if it defaults on payments. Mr Sergei Dubinin, the acting finance minister, hopes nonetheless that Russia will be able to reschedule "all our debts on a long-term basis" this autumn.

For all the present government's shortcomings, Prof. Yash may be right in arguing that political realities mean there is no realistic alternative to the present team in Moscow. He says that because Russia is not a dictatorship, but a democracy, albeit an imperfect one, "people find reforms difficult to put up with. They expressed themselves in the December 12 elections.

But here lies the main weakness of a government which has been better able than its radical predecessors to pro-mote political stability in the short term. The danger, ahead of elections scheduled for 1996, is that it lacks the vision and expertise to promote the widerranging reforms required for longer-term stability.

Inspired individuals needed

Some western observers ask whether it is realistic to expect Russia, with an administration which is itself desperately unreformed, to carry out the sorts of struc-tural policies which have defeated many western governments, writes Leyla

Russian history reveals a deep-rooted tradition of state interference in the economy even before the 1917 Bolshevik revohution killed off Russian capitalism. But the doubts revolve around whether a Communist-era bureaucracy, with a to the requirements of a modern market

Mr Grigory Yavlinsky, the prominent economist and a presidential hopeful, argues from his experience of conducting grass-roots reform in Nizhny-Novgorod province that the necessary policies are so simple they require little more than

political will and expertise at the top.

"The problem is the mentality of a government and various lobbies which try to use money in a Soviet way," he says. One example of a simple solution he is trying to introduce in Nizhny-Novgorod is provided by the burden on enterprises which have to pay for the maintenance of housing built for workers but no longer

ccupled exclusively by them.
On the grounds that subsidising indiriduals is much more effective than subsidising unwieldy companies, the idea is to transform the corporate housing subsidies into salary increases for workers and let them deal with the housing as they

Mr Yavlinsky is convinced that mainte nance costs would fall to a third of their present level as residents sought to save money and rented out extra space to busi-

The benefits would be significant for attempts to restructure the economy as a the poorest are," says Mr Vasiliev, who

"Only after that can you seriously talk of widespread bankrupicies of enterprises because this kind of reform would finally create a proper housing market, enabling people to move around the country to look for other jobs."

But he says the scheme is being held up because the government is refusing to let companies deduct from their tax bill the amounts they have until now President Yeltsin's attempt to adopt a

more pro-active approach to reform with the issue of a dozen new decrees this month included instructions for the sale of bankrupt state-owned enterprises.

The World Bank is discussing the establishment of pilot projects

But Mr Boris Nemtsov, the governor of Nizhny-Novgorod, finds that it is still too vague to be helpful precisely because it provides no clear instructions on how to disnose of the so-called social assets attached to these enterprises.

A related failure remains the absence of a convincing safety net capable of coping with poverty and mass unemployment. "The main issue is that social support is not targeted," says Mr Serget Vasiliev, the radical deputy economics minister, who argues that reasonably well-off parents like himself should not, for example, qualify for child benefits. But partly because of political hang-ups about giving up a Soviet-era promise of benefits for all, means-testing - developed with success in the Baltic republic of Latvia - is unheard of in Russia.

"The social services do not know who points out that it would be easy enough to use state-owned television to invite citizens who fall beneath a minimum subsistence level to apply for benefits.

Despite widespread political handwringing over the social consequences of reform, he adds that the fact that no single ministry has overall responsibility for social policy means that nobody can be held responsible for its absence. The World Bank is discussing the

regions for improving the social safety net. But these would only take effect next year and would be of minor significance. Mr Vasiliev concludes that the government will only begin to take serious action under pressure from "an external crists, like an explosion in unemploy-

Meanwhile, the regions are being left to their own devices, with mixed results, as illustrated by the contrast between conservative Ulyanovsk (Lenin's birth-place), and Nizhny-Novgorod, a laboratory for economic reform.

Both have social safety nets of a kind. Olyanovsk, which continues to control prices, is maintaining a Soviet-era system. Nizhny-Novgorod has set up a minimum monthly income threshold of Rbs55,000 for every man, woman, and child. This means that the family of a factory worker on a salary of Rhs100,000, with an unemployed wife and two chil-dren, qualifies for an additional payment of Rhs110.000.

This may not be much. But such initia tives provide ample proof that with inspired individuals in charge, Russia could deal with these pressing problems a lot more effectively than it is now.

and prime minister" according to Mr Alexashenko - most companies now face hard budget constraints.

The central bank says it is following to the letter monetary growth targets agreed with the International Monetary Fund. A memorandum of rstanding between the Fund and Russia - setting a monthly inflation target of 7 per cent by the end of the year - may be unambitions. But because the government is so

> IMF agreement to be carried out to the letter. "We haven't set very ambitious goals," says Mr Tulin. "But we are realists. The pres-

ent state of affairs in the economy does not allow us to be more restrictive." Displaying continuing central bank concern about areas which should be the responsibility of the government, he argues that more ambitious targets for inflation would trigger "very high unemployment". But one veiled signal that

much stronger than its prede-

cessors, it may also be the first

the government may already be unable to stick to the 1994 budget and monetary growth ceilings came when the central bank earlier this month lowered its official lending rate from 200 per cent to only 185 per cent. This was well above a

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Malign legacy resurfaces

2.1m men and women in Russia: police and paramilitary account for another 1m. Russia remains, as the Soviet Union was, a militarised state in which the ratio of men under arms exceeds that of most oth-

It is a reflection of the militarisation of a state which was geared to an aggressive - and defensive – posture vis a vis an encircling world. It is changed greatly: but the legacy of the huge defence machine is not

swept away in an instant. This year, the third since Russia's independence, has seen that malign legacy of a communist state which regarded most others as poten-tial enemies impose its imperatives upon the present in a particularly sharp form.

The legacy is not just one of bases all over Russia and over much of the former Soviet Union: it is also one of an industry whose best plants were geared to produce weaponry, and whose best engineers, technicians and scientists were set to work on military output and research. The former Soviet war effort, hugely weakened but basically unreformed, now presents the struggling government of Russia with one of its greatest

This test may be divided into three parts: First, to redefine the role of

the Russian military in the post-cold war world; • Second, to restructure the

armed forces; • Third, to wean industry away from a dependence on military orders towards responding to the civilian mar-

The first of these has begun. Russia's military doctrine has been published - itself a linge breakthrough - and although it contains some difficult passages as the right to intervene

bouring states, it generally takes account of Russia's changed circumstances. However, it presents guidelines rather than describing what the military is actually doing: not surprisingly, for that is still evolving.

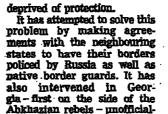
Russia, as its leaders have often said in the past three years, has no enemies: even the intercontinental missiles - Russia still has 39,000 nuclear warheads - have been symbolically detargeted from the US and other Nato countries. However, it remains doubtful about co-operation with new friends - especially

Russia has intervened in Georgia - first on the side of the Abkhazian rebels - unofficially - and now as an officially

- sanctioned peacekeeping force

with Nato, for so long the closest antagonist to the Warsaw Pact military alliance which the Soviet Union dominated. Nato has proposed a Partnership for Peace, a loose grouping in which the former com-munist states would draw closer to their former antagonists; stage joint exercises but fall short of joining Nato itself. Russia seems likely to sign up in concert with most other former Soviet states, but only after long hesitation and with

many reservations. Russia regards itself still as a superpower which, in nuclear terms, it certainly is; as a regional leader, which it also is: and as a country still liable to be isolated by surrounding states. Russian military tradition has emphasised, naturally, the vulnerability of the flat open spaces of western Russia to invasion. Now, with its borders closer to Moscow than they have been for centuries,



ly - and now as an officially

sanctioned peacekeeping force.

It retains an army in the Tranadnestr area of Moldova to protect the Russian-speaking population there. Its troops shore up the regime in Tajiki-stan and guard its border with Afghanistan And they hold bases in all republics which are members of the Confederation of Independent States, except Azerbaijan and there they are pressing for at least one, as a condition of halting the Armenian advances in that

The troops have, however, been withdrawn from Lithua-nia; agreements have been signed to withdraw from Latvia; and in Estonia, negotia tions are proceeding with the target date for final withdrawal set at the end of

The Russian general staff broadly accepts the need for change and has backed the



General Pevel Grachev this tobbied usly for more resources

Partnership for Peace, How-ever, it has had to delay joint US-Russian exercises which should have taken place in Russia this month because of nationalist pressure, especially from parliamentary deputies. Decades of isolation and of

regarding the west as an enemy have left deep marks. While co-operation continues, much clearer this year.
Though an agreement signed

earlier this year between Russia and Ukraine under US auspices to bring the nuclear weapons from Ukraine to Russia is being observed, consider-

The military remains a conscript torce, although with a draft much reduced from Soviet times due to able worries remain over stockpiles of chemical and biological weapons in Russia – stockp which, western analysts fear, may not be wholly accounted for by the Russian authorities. earch may even be continuing unknown to these authorities or to which they are deliberately blind.

The military remains a conscript force, although with a draft much reduced from Soviet times due to widespread evasion. Morale is said to be low in all services; budget cuts have limited exercises and the state of readiness is thought to be low. The official aim is a professional army, but the resources to transform it are lacking. This has meant a huge oversupply of officers and generals compared to other ranks while the officers remain very often badly housed and sporad-

ically paid.

Military industry has suffered in the past two years from very deep cuts in subsidies and orders: at the same time, military conversion has been limited. The current military budget for 1994, set at Rbs40,000bn, would make up about one third of total budget expenditure, but is still said by the top commanders to be too low to preserve the army in a reasonable condition. General Pavel Grachev, the defence minister, has lobbied vigor-ously for more resources and the struggle is not yet over.

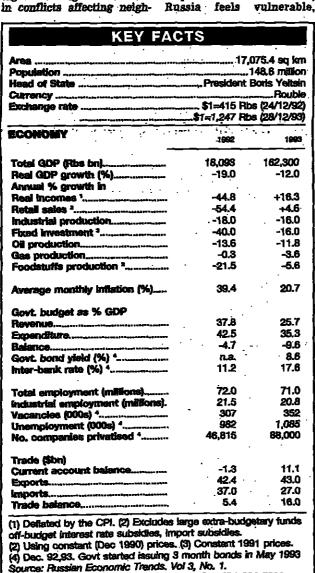
Politically the military remains hugely influential - especially after the October events of last year saw it intervene on the side of the president against the parliament. The need to preserve its loyalty may well dictate extra spending and will further delay necessary reforms. Its traditional loyalty and subservience to civilian leadership has not yet been broken, but the dan-

ger is greater than before.

The positive side is that it withdrawn from eastern Europe and, in doing so, from the Baltics. Its discipline has held and it is no longer auto-matically favoured by the authorities - indeed, in some respects it has suffered dispro-

portionately.

The challenge facing it over the next few years is to reshape itself into a force cana ble of guaranteeing national security, while regaining a spirit and an efficiency which would in turn ensure that it



Source: Russian Economic Trands. Vol 3, No. 1. Whurr Publishers Ltd. Tet: 071-359-5979. Fac: 071-226-5290.

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Commercial banking is coming of age, writes Leyla Boulton

End of the Wild West free-for-all

probably the most profitable

sector of the Russian economy.

Benefiting from wild cur-

rency fluctuations, high infla-

tion and, until recently, ridicu-

lously cheap central bank

credits, banking in Russia has

been tantamount to a licence

But the boom days may be

numbered since the central

bank began charging positive

interest rates on loans to com-

mercial banks intended to sup-

port industry, agriculture and

This form of state subsidy,

Russia's northern territories.

first attacked by Mr Boris Fyo-

dorov, the former finance min-

ister, was intended to act as a

sort of industrial policy but is

now recognised as ineffective

its official goal is to phase out

gether so that its resources are

allocated only by a new system

of auctions introduced this

year. It auctioned off 13 per cent of total first-quarter lend-

so-called directed credits alto-

The central bank itself says

and open to corruption.

to print money.

Russian commercial banking, one of the fastest-growing sectors of the economy, is coming of age - as is the country's cantral bank, which only recently began taking seriously its role as guardian of the country's

As the central bank gets to grips with banking supervision and responsible monetary policy, the country's 2,214 banks may finally be embarking on a transition from a Wild West free-for-all to competition, consolidation, and regulation.

In the latest sign of changes to come, President Boris Yeltsin only two weeks ago gave up attempts to keep western competition out of the domestic market and reversed restrictions on half a dozen western banks licensed to set up full banking subsidiaries in

The licences, issued by the central bank almost a year ago in an attempt to attract western investment and banking know-how to Russia, had been effectively frozen under fierce pressure from some powerful Russian banks.

"Bringing in foreign banks is like saying 'Let's invite foreign police to Russia to deal with crime'," says Mr Garegin

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Tasunian, chairman of Technobank and deputy chief of the Association of Russian Banks (ARB). Technobank and other ARB members had lobbied for blanket protection against western banks for at least a lew years more to give "Russian banking time to stand on its own two feet".

But apart from bringing in foreign banks to raise standards through increased competition, the Russian central bank has also begun to turn to the task of restructuring and

The growth of banking since the break-up of the old Soviet Union's state banking monopoly has been prodigious - and virtually unregulated

monitoring the health of domestic commercial banks. The growth of Russian banking since the break-up of the old Soviet Union's state banking monopoly in the late 1980s has been prodigious - and vir-

tually unregulated. Mr Dmitry Tulin, deputy central bank governor, reckons that with a 71 per cent return on equity last year, banking is

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ing to commercial banks of Meanwhile, in a welcome move to make a clear distinction between lending and sub-sidies, Rbs6,000bn (\$3bn) which started off the year as "credits" earmarked for agriculture have dready been incorporated into the 1994 budget as straight sub-

Another improvement for consumers is that Sberbank, the national savings bank, has been paying positive interest rates on savings accounts for the first time since the value of citizens' savings were wiped out by price liberalisation in January 1992

In an attempt to flush out a proliferation of smaller institutions which, to quote Mr Tulin, are just "pretending to be banks", the central bank decreed from January 1995 a 20-fold increase in banks' minimum capital requirement. Under the old threshold of Rbs100m, he says that entrepreneurs could "choose between buying a new car and setting up a bank". From 1999, the threshold will rise further from Rbs2bn to the equivalent of Ecu5m - the present minimum requirement for banks in the European Union.



The main game of small banks and financial institutions has been to attract the savings of citizens using deceitful advertising promising very high interest rates

As long as they can continue to attract funds, such institutions may be able to keep their promises to investors for a while. But as soon as the new money runs out, the danger is that if they have not already run off with depositors' money, such institutions will simply

In an attempt to pre-empt such dangers - which take on important dimensions in a country where viewers are used to believing everything they see on television - Presi-

Many tools for assessing credit risk do not apply. The most popular methods for recovering loans from bad

borrowers remain violent

dent Yeltsin earlier this month issued a long-awaited decree banning dishonest advertising. But a potentially more serious threat to the banking sector comes from bigger banks owed large sums of money by ailing enterprises which happen to be their shareholders and may for the first time be allowed to go bankrupt. The



threat in this case is of a "domino" effect of bank crashes precipitating business collapses across the economy.

Communist history, the central hank withdraw licences from 19 banks last year. Another 21 pliance with central bank regulations in the first half of this year alone.

"There have been no major banking scandals so far because we have been dealing with small banks, with very few individual customers, and very small companies as clients," says Mr Tulin.

But he reveals that 40 banks now being investigated for potential trouble include some among Russia's top 50 to 100 banks although, he hastens to add, none of them are well-known internationally. Some of the problems are the result of "classical mistakes" by banks which, for example, invested too much in real estate, including their own new premises, at the expense of liquidity. Other banks were caught napping by the central bank's sharp increase in interest rates from negative levels of 100 per cent to now positive rates of about 200 per cent.

Despite the problems, the banks' wealth has attracted not just the keen interest of Russian organised crime, which launders money through the banks without controls. and is behind contract killings of bankers who resist extortion attempts. At a time when industry is starved of capital, certain politicians, including deputy prime minister, have



A commercial bank worker changes figures showing the US dollar exchange rate outside the entrance to a private bank in Moscow Aca

issued veiled threats about the need to force banks to lend to the "productive sector of the

economy". Any attempts to force banks to lend by legislation will not work," retorts Mr Victor Gerashchenko, the Soviet-era central bank chairman, who until last year expressed more concern about the health of industry than the health of the rouble or the banks.

Except when they are acting as transmission belts for state loans to companies, the banks as a rule do not provide medium or long-term loans because of high inflation, still at about 10 per cent a month, and a lack of security for such

Typical is the loan portfolio of incombank, one of the leading private Russian commer-cial banks. Last year, only 3 Mr Oleg Soskovets, the first per cent of its rouble loans were for more than a year,

promised that the arrival of foreign banks would make it easier for entrepreneurs and industry to borrow money at low rates, the western banks

also see obstacles to lending in "We are prepared to lend to

with 75 per cent up to six

Although President Yeltsin

Russian companies if we can get security," says Mr Domini-

que Menu, Moscow representa tive for Banque Nationale de Paris. "But for the moment this is an economy without

sanctions. Apart from the fact that most clients do not have a track record, many standard tools for assessing credit risk do not apply in Russia, and the most popular methods for recovering loans from bad bor-

rowers remain violent. The only companies which can raise bank finance in Russia today are involved in trading and Russia's more lucra-

But the picture may slowly begin to change. In a project inspired by Mr Fyodorov when he was still in the government last year, the European Bank for Reconstruction and Development is trying to encourage banks to lend to small busi-nesses which could play an important role in the country's

economic recovery. For example, Nizhegorodsky Bankirsky Dom, a commercial bank in the reformist province of Nizhny-Novgorod, has already been lent \$500,000 under an EBRD scheme which consists of lending funds to Russian banks which agree to pick up half the cost of loans which do not get renaid

But the main hope of harnessing banks to economic growth is for the authorities to stick to their new-found financial orthodoxy, while making it easier for banks to lend money to companies - for example by improving the courts' ability to handle commercial disputes.

Prof Yevgeny Yasin, chief economic analyst for President Yeltsin, says that the government is examining ways of insuring banks against lending

Meanwhile, the central bank, whose own irregular practices were revealed in a Coopers & Lybrand audit two years ago, faces the prospect of external supervision on its own activities. Mr Fyodorov, the former finance minister who now heads parliament's sub-committee on central bank reform, has, together with commercial banks, drafted a new law which inter alia would create a supervisory council to monitor the central bank's perfor-

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Leyla Boulton reviews the privatisation programme

n three days' time, Russia will have completed the most ambitious privatisation programme in history. More than 11,000 state-owned enterprises, accounting for 70 per cent of Russian industry, will have been sold to the public for 148m vouchers distributed free of charge to every Russian citizen.

Under a new government programme which has yet to be approved by parliament, a second phase of privatisation due to begin after July 1 would sell remaining state-owned stakes in privatised companies for money only.

However, as Mr Anatoly Chubais, deputy prime minister responsible for privatisation, observed earlier this month: "The great battle for privatisation has clearly been won, but the battle over the assessment of its results is only just starting".
For Mr Chubais, the only

and the state of the state of

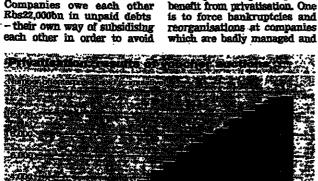
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Agent - Transfer

radical reformer still in office two years after the launch of market reforms in Russia, the wider challenge of protecting his legacy is daunting. Assuming that he manages to stay in office, it consists of nothing less than ensuring the survival of hundreds of companies thrown into market reform at the deep end by privatisation.

"I know what to do to make things right," he said recently.

Already, however, his legacy the mayor of Moscow, who claim it has aggravated the crisis of Russian industry, set for a 25 per cent drop in output this year. Even better-managed factories are starved of the capital they need to modernise, restructure and survive in a more competitive environment. Companies owe each other Rbs22,000bn in unpaid debts



"I have the levers and the team to do it. I carry responsibility for it too."

> their own accord. The other is Although he cannot be held to encourage investment in responsible for the high inflacompanies with the prospects and the will to change.
> The "mass" privatisation ending this month achieved a qualified success in attaining

tion and the lack of a structural policy which are prolonging the agony of Russian industry, Mr Chubais faces a dual challenge in helping the more promising companies

from state planning to capital-ism irreversible. Giving away vouchers entitling citizens to a share of the nation's wealth, as well as enabling workers and managers to acquire at a discount of up to 51 per cent from their workplaces, was designed to create grass roots support for market reforms in the face of opposition from parliament and old-style industrial manag-

the three aims it set out to

The first was political: to

dramatically lessen the over-weening role of the state in the

economy, and make the shift

Given the inability of a weak and old-fashioned state bureaucracy to make managers act in a more market-orientated way. the second goal was to force enterprises to change their

Thrown in at the deep end is being attacked by conserva-tives such as Mr Yuri Luzhkov, the harsh realities of market have failed to restructure of behaviour simply by exposing flow of foreign investment needed by Russian companies them to market forces.

But partly because of the government's reluctance to apply hard budget constraints to enterprises, many are doing nothing to adjust, paying workers to come to work while producing less and less. "They are simply waiting for something to happen", as Mr Vladimir Shcherbakov, a former Soviet minister who now heads a privatisation fund, put it.

here have also been some cases of privatisa-tion producing positive changes in management. One example was provided by the Vladimir Tractor Plant earlier this year. There, institutional investors elected as chief executive officer a former deputy director of the plant with a degree from Harvard Business School - in order to begin the restructuring which an oldstyle director had tried to avoid by borrowing money to pay wages and supplying goods to insolvent customers.

The third aim, to facilitate a

to acquire not just new technology to replace outdated and inefficient equipment but business know-how, has perhaps proved the most successful. Most of the leading foreign companies with a strategic reason to build an industrial pres-

not least because this has

ence in Russia have begun doing so only thanks to Mr Chubais's voucher auctions,

negotiate deals with government officials. Such "strategic" investors have typically acquired minority stakes in Russian companies occupying the markets they would like to join - mostly in consumer industries such as food-processing, alcoholic beverages, clothing and tobacco. There has also some growing interest from western fund managers, attracted if nothing else by rock-bottom prices and hopes of a high return on a high-risk

State of the state

Although figures are hard to come by, Mr Chubais says that foreign equity investment totalled \$1.5bn last year and

proven easier than trying to could reach \$4bn this year. Privatisation has itself generated the momentum for some of the further reforms which are necessary to ensure its success. The overnight appearance of millions of small investors and of thousands of private companies starved of investment has created a double imperative for the development of efficient capital markets.

This means establishing ground rules for everything from the protection of minority shareholders, to fair advertising standards, company disclosure, and self-regulating professional associations to run reasonably transparent mar-

Mr Jonathan Hay, a US adviser to the Russian privatisation ministry [whose formal title is Committee for the Management of State Property), believes that the very success of privatisation depends on the development of capital markets. "The whole assessment of privatisation will be tied to this. If companies cannot get access to capital markets, the view will be that privatisation was an awful thing to do. If they do, people will say that privatisation laid the basis for the rebirth of the Russian economy and Chubais will become a folk hero."

PROFILE: URALMASH

Grievances shed some useful light

But the reality at the factory in President Boris Yeltsin's home town of Yekaterinburg gives less cause for cheer. Mr Victor Korovin, Uralmash's 41-year-old director, finds adjusting the company to

the new circumstances of Russia's market economy tougher than he expected when it was privatised last year. Mr Korovin is one of a breed of younger managers who have welcomed radical market reforms. His grievances, which are not the whinings of old-style managers who have no idea of how to cope, shed useful light on the long-term problems facing the flagships of Russian industry. For all its reformist zeal, Uralmash is

he advertisement outside the gates

of recently-privatised Uralmash,

Russia's biggest heavy engineering company, promises great hope for the future. 'New Times, New Ideas, New Fron-

tiers. Uralmash - the Guarantee of Your

was beautiful and quality irrelevant, and by a dearth of investment finance to make it more competitive for the future. Far from warning that the company is on the verge of collapse, as many directors do when they try to squeeze subsidies from the government, Mr Korovin says Uralmash will survive - but will continue

caught in a vicious squeeze - by its sheer

size, built up in the Soviet past when big

There is no money for investment and fall forecast for machine tool plants such

this means we are not looking after our as his. He agrees that much of this is future," he says. "For a good businessman, for someone who wants the company to flourish, this is a catastrophe." Monthly inflation, which has been low-

ered from 30 per cent last year but is still high at 10 per cent, discourages investment while prohibitive interest rates discourage bank-borrowing. Meanwhile, many of Uraimash's potential customers are caught in a web of mutual debts, caused by the government's failure to impose financial discipline on companies for fear they will go bust. Uralmash itself owes, and is owed, some Rbs13bn.

In his fight to control costs, Mr Korovin has already begun painful restructuring. The workforce has contracted from 28,000 to 19,000 - with some of the departures voluntary but others compulsory. Mr Korovin has also closed down or mothballed entire sections of the 5 sq km plant. He expects his output to fall by another 30 per cent this year - roughly in line with a 25 per cent drop forecast for industrial output as a whole but less than the 40-plus per cent

necessary slimming - "We have to pay for the [Communist] system we had for 70 years". But he believes that this year's contraction in output - to a third of what the company produced in 1987 - is "the limit beyond which we cannot afford to

And even if it pares its own costs further, Uralmash is unlikely to be able to finance investment from its own funds. Having made a pre-tax profit of Rbs13bn last year, Uralmash paid Rbs5,2bn in taxes, and spent most of the rest on wages, workers' housing and working capital. To appease the workforce, which acquired half the company during privatisation, it spent another billion roubles on dividend payments which other shareholders would have preferred to plough back into the company. Very little was left for capital investment which Uralmash needs to replace inefficient, worn-out equipment.

Adding injustice to injury, it is "official" enterprises such as Uralmash rather than Russia's booming unofficial economy, which carry the brunt of taxation in Russia. In addition, many of them continue to finance a heavy burden of so-called social assets - such as housing, hospitals, and kindergartens - which elsewhere in the world are taken in charge by the state. Mr Korovin has made an energetic start in paring these so-called "non-productive assets." But despite these efforts, Uralmash still spent Rbs1.8bn out of its pre-tax profits on the upkeep of housing built for its workers but no longer exclusively occupled by them.

■he best deal which Mr Korovin could sourceze out of the regional administration was a promise that it would take on 30 per cent of these costs this year, 50 per cent next year, and the whole lot in five years' time.

The changes which this former Communist youth movement leader has already pushed through have led to his growing unpopularity among a demoralised workforce which accuses him of uncaring capitalist exploitation. "He does not strive for the working class," said Sasha, a 24-yearold worker.

not try to block outside investors from buying into the company when it was privatised. Mr Korovin appears to be disappointed with the kind of support he has received from his own capitalist backers. He says Mr Kakha Bendukidze, a

Moscow entrepreneur who acquired 18.5 per cent of the company when it was privafised, has not, for example, provided him with the sort of financial expertise and advice he had hoped for. A deal he engineered to supply equipment for the development of Russia's huge copper deposit at Udokan in eastern Siberia may also be at risk because the Russian entrepreneur who won the tender to develop it having trouble raising the finance needed to build the mine.

Having sought strategic partnerships with western engineering companies, Mr Korovin has tried to get around foreign investors' reluctance to invest directly in Uralmash by setting up joint ventures with the likes of Caterpillar of the US. But these are taking time to translate into contracts for orders.

Meanwhile Uralmash is quickly losing a competitive advantage due to cheap Russian raw materials which are now climbing in price towards world levels.

Mr Korovin, like many industrialists, argues that the government must at least create minimal conditions for him to succeed. In the absence of a coherent industrial policy from the government, he recently convinced it to repay debts owed by Russia to Bulgaria with Uralmash machinery. The benefit for the government would be to assess the machinery's value in world prices but pay Uralmash only up to 70 per cent of that amount

However, an official from the local administration, Mr Yevgeny Grachev, berates Uralmash for not doing more to help itself. He says the company is doing a poor job marketing what it produces, and should drastically slim down its range of

products anyway.

"Our big tragedy is that everybody is waiting for economic and political stability, perfection of the banking system, and tax improvements," claims Mr Grachev. To which Mr Korovin's assistant, present at the interview, replies that "this is all easier to do than it sounds".

For the time being, Mr Korovin's pessimism about the future seems better founded than the bright hopes he started off with a year ago.

Leyla Boulton

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PROFILE: Prime Minister Victor Chemomyrdin

Remarkable progress and transition

Recent agricultural reforms are full of promise, writes Leyla Boulton

Opportunity for the peasants

changed greatly while appearing exactly His first year was hard. He took over a cabinet which may have been shorn of Gaider but still had many "Gaidarites" in it, in the key economic posts, whose contacts with the western financial institutions and advisers were much better than his and whose distrust of him was manifest. These ministers still had the president's ear and were thus able at times to

fter 18 months in power, Mr Victor Chernomyrdin has succeeded in

becoming the second most powerful

man in the country and has remained the

most elusive. The Russian premier, appointed in December 1992 when pressure

from the then Congress of People's Deputies forced Mr Yegor Gaidar from his role

as acting prime minister, has apparently

circumvent their ostensible boss. Moreover, he stumbled badly on his first appearance as prime minister - calling for price controls and then being forced to back down after an outcry from his own

He was close to the powerful industrialists' lobby headed by Mr Arkady Volsky, and as a former chairman of the gas monopoly Gasprom and an energy minister in both the Soviet and Russian governments, he knew and shared many of their

He clearly opposed many of the measures and proposals of his ministers – siding with Mr Victor Gerashchenko, the chairman of the Russian central bank, and protecting him from presidential dismissal

in favour of Mr Boris Fyodorov, then finance minister, calling the privatisation programme akin to Stalinist collectivisation; and agreeing with Mr Gerashchenko to scrap pre-1993 banknotes in a currency reform which took place while Mr Fyodorov was out of the country and without his

It became accepted - since it was promulgated by the radicals and to a degree confirmed by the prime minister's actions that he was at best a reluctant reformer, one whose instincts remained with Soviet industry and with at least a corporate if not a command economy. Uneasy before most audiences, he tended to reiterate the need for hard work as an antidote to the country's evils.

It was the clash between the president and the Russian Supreme Soviet, culminating in the latter's suppression by force last October, which revealed how far Mr Chemomyrdin had succeeded in creating a position for himself independent of both Mr Yeltsin and his cabinet colleagues and with its own power and influence. He remained silent for some days after Mr Yeltsin banned the Supreme Soviet in September - then came out with an expression of solid support which clearly carried



awrolin: positioned himself well before

weight and which appeared to speak for a body of centrist opinion of the kind the radicals could not reach.

Mr Chernomyrdin it was who went with Mr Yeltsin to the Ministry of Defence in the early hours of October 4 last year, after the pro-parliamentary forces had attacked the mayoral offices and the TV centre, to argue the generals into giving to the defence of the capital - and of the executive power. Mr Yeltsin's own account - in his memoirs The View from self the responsibility of ordering in the

Mr Yeltsin's appreciation of him is generous, belitting someone who has shown conspicuous loyalty to his president - "the prime minister brought a refreshing note into the atmosphere of market reforms, which in fact continued. It was an accent on reliability, permanence, stability... The political pressure on the government lifted dramatically... The hard, authoritative prime minister created a bulwark for the president's policies, a second centre of power that cemented together all the dif-

ferent government groupings."
With the apparently unassailable support of the president behind him, Mr Chernomyrdin positioned himself well before the parliamentary elections last December. In contrast to many of his ministers - including Yegor Gaidar, by that time returned to the cabinet as his first deputy

he was not seeking office: instead be

his cabinet members to continue as premier whoever won.

When the result turned out to be a the Kremlin - has Mr Chernomyrdin swing to the right and left extremes, with directly challenging the defence minister, no one group in the ascendancy, Mr Cher-General Pavel Grachev, to take upon him-nomyrdin benefited hugely. The radicals, after a brief struggle, left the cabinet - with the sole exception of Mr Ana-toly Chubais, the privatisation minister. Mr Chernomyrdin, with his own choice as first deputy in Mr Oleg Soskovets, a similarly tacitum worksholic, had for the first time his own government.

> in a different programme: after all, he had commented immediately following the election that there must be "an end to market romanticism." But what followed that remark was an extraordinary turnaround: to date, Mr Chemomyrdin has not only retrained from diluting the radicals' programme, he has actually advanced it -retaining a tight squeeze on credit, keeping down inflation, forcing the central bank to impose more discipline and keep real interest rates high, approving (in Rus-sian conditions) a very tight budget with

t was widely assumed he would bring

tecting the remaining reformists in the

This "new" Mr Chernomyrdin - his supporters would say it was always there - took some time to be obvious, but impressed when it did. It was enough to convince Mr Michel Camdessus, the managing director of the International Monetary Fund, to go to Moscow in March and after talks - and a hunting expedition - with the prime minister, to extend to his government a \$1.5bn loan.

In an article written for the Financial Times last month, Mr Chernomyrdin revealed himself not just as a man deter-mined to carry on reforms, but as one who took pleasure from the commercialisation of the cities, privatisation of businesses, and the signs of enterprise among his fel-low citizens. If he is still presenting a false reformist image, he is doing it very well, and keeping it up for a long time.

He has clearly conceived a taste for the power he could not have expected would be his: and he may join the other combatants for the president's chair when it becomes vacant in two years time at the end of Mr Yeltsin's term. He does not enjoy high popularity ratings - he is too much associated with hard economic times - but he may be able to succeed to the rather tattered mantle of Yeltsin and pose as a centrist able to unite the nation. m a remarkable progress and a remarkable transition - and Mr Chernomyrdin appears to have a way to run yet.

John Lloyd

L Michigan

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or the first time after seven decades of gross mismanagement by Communists who put Russian agriculture on its knees, Russian peasants are finally being given the chance to put things

right themselves. A new reform programme introduced in the Nizhny-Novblueprint for the whole of Russia, is based on the premise of Mr Boris Nemtsov, the local governor, that "the Russian people are a lot cleverer than the country's leadership gives

A clear system for collective and state farms to reorganise into more efficient private units is so simple and so promising that it prompts questions as to why Russia's rulers have come up with it only now, and only after the intervention of foreigners. But although he has been accused of bowing to lective farms, and conserva-

foreign "imperialism", Mr Nemtsov has nothing but praise for the International Finance Corporation, the World Bank's private invest-ment arm, which developed the plan together with Russian

"The foreigners did what Russians couldn't do. They carcal conclusion," says this energetic 84-year-old chief of a province often described as a laboratory for economic reform. "In Russia, we have lots of ideas but little capacity to see them through."

Another reason for the failure of previous attempts at reform has been a fierce ideological debate over private land ownership. Since the collapse of Communism, agriculture has been held hostage to battles between radicals seeking to break up state and col-

agricultural experts.

gorod province and decreed a ried an idea through to its logi-

tives who oppose private prop-erty and call for more subsi-Farm subsidies pushed through by the country's powerful agrarian lobby consume up to 10 per cent of national budget expenditure. Although agriculture has recorded a much milder drop in output than industry – and Russia has even begun cutting back grain imports - prices remain high.

> Farmers are unable to use their land as collateral for bank loans to develop. A poorly-developed trade infrastruc-

quality poor, and distribution

monopolised food-processing industry mean waste, high costs, and a raw deal for Russian consumers. Even when peasants manage to bypass middlemen and take their produce directly to town, they usually have to pay protection

money to racketeers.

A middle course followed by
Mr Boris Yeltsin since his election as president three years ago sought to encourage the development of a new class of private farmers without forc-ing the break-up of collective and state farms. This meant that some city dwellers and sants were able to obtain land from state reserves and existing collective and state

With generous injections of cheap credit, up to 300,000 private farms appeared around the Russian countryside. But old state and collective farms, ordered to "reorganise" without instructions on how this should be done, remained basically unchanged: costly to maintain and no more efficient than before.

President Yeltsin, having dissolved the conservative parliament last autumn, sought to adopt a more active land reform policy and issued a decree overturning a five to 10year moratorium on the resale of land imposed by the old parliament. In a December referendum – the results of which bave since been queried but not reversed - he pushed through a new constitution

laying down private property as an inalienable right. At the same time, however, prospects for further reform appeared to receive a setback when December elections also returned a parliament dominated by ultra-nationalists, and neo-communists. A newly-reshuffled government, shorn of radicals, promptly announced protectionist import tariffs, new subsidies for agriculture, and old-style output targets specifying, for example, that Russia should produce 39bn

eggs this year. But the government's lack of a coherent strategy for agricultural reform had Prime Minister Victor Chernomyrdin embracing the Nizhny-Nov-

Moscow says it is about to submit to parliament a land code

gorod project as a model for the whole of Russia last March. The government has since drawn up instructions spelling out how local authorities in other provinces can reproduce the scheme. Moscow also says it is about to submit to parliament a land code, setting out the ground rules for a land market.

Relying on the greed of peasants rather than compulsion from on high, the Nizhny-Nov-gorod scheme is strictly voluntary. The scheme, bowing to ants' suspicions of outsiders, for the time being restricts the distribution and subsequent re-sale, of agricultural land to local farmers.

These two elements make the programme much more difficult to challenge politically. The programme also differs crucially from Russia's initial system of encouraging individual farmers because it does not rely on the good will of local bureaucrats or collective farm chiefs. Once a farm has opted to reorganise, each worker gets a property entitlement certifiaccording to an individual's length of service. Before equipment, stocks and land are auctioned off, farmers wishing to work together in a private partnership have an opportunity to pool their entitlements together and bld jointly for selected tractors and land.

This means that rather than systematically breaking up farms into inefficiently small individual units - as was done in Lithuania, for example - the scheme allows farmers themselves to decide what size farms are likely to be most offective.

The first results of the renrganisation of six collective and state farms under the Nizhny-Novgorod pilot project are being closely studied by other

regions. "We don't know what the result will be but we chose this path and we are trying it," says Mrs Yekaterina Makaricheva, 39, the energetic chief of Moshkinskoye, one of eight private farms spawned by the reorganisation of the Sixty Years of October collective farm. "It is better to try rather than wait for a gift from on high because I'm sure nobody will give us anything."

She says the first results are encouraging. If the 300-member farm she heads proves farmers like herself will survive by setting up smaller businesses. Another offshoot of the programme has been the encouragement of enterprises devoted to the servicing of the farms themselves.

Mr Sergei Klementiev not only farms land he won at one of the auctions with his landentitlement certificate, but has set up his village's first cafe, and takes produce to town for other farmers such as Mrs Makaricheva. Another local entrepreneur provides Mrs Makaricheva with fuel at half the price charged by the local state fuel monopoly. Clearly, not all the new busi-

nesses will succeed. Mrs Liu-

boy Bubnova appears weighed down by her new responsibili-ties as head of the neighbouring Rostok farm. Of all the problems facing new farms, Mrs Bubnova suggested that motivation was the most serious. "They need to be a little bit more ambitious," observed Mr Christopher Shupe, a Michigan agricultural student working on Mrs Bubnova's farm to research the results of the reor-

But Mrs Bubnova said that it was difficult to get people to work harder on her 35-member farm when pay was "low"
- even though the local monthly wage of Rbs150,000 is not too bad for Russian standards - and often late. The reason the money was late was because many of her clients

did not pay for deliveries. In Nizhny-Novgorod, the scheme is being accompanied by Rhs6hn this year in subsidised loans for farms like Mrs Bubnova's which decided to reorganise. Cheap loans for setting up small food processing signed to create competition for local monopolists

also led to the creation of 123 new dairles and meat-process-ing businesses in the Nizhny-Novgorod region last year. The British government, which is financing the IFC's work, is also beloing to establish local advice centres for farmers.

While the Nizhny-Novgorod project displays an impressive alliance of Russian political will, and western technical much painstaking work remains to be done to deliver similar results on a massive

Mr Nemtsov reckons it will

take at least 10 years to reproduce the plan across the province and Russia as a whole. Dr Vassily Uzun, the Russian agricultural expert who is considered the main inspiration for the scheme, says he will be glad if it takes only 20 years. Providing Russia's squabbling politicians do not interfere with progress on the ground, the reform gives Russia's long-suffering peasants a unique chance to prove that

they are capable of seizing the

initiative with both hands.

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arlier this month, Mr Andrei Kozyrev, the Russian foreign minister, warned the US Congress against insisting on the implementation of its vote to arm Bosnian Moslem forces. This would be, he said, a harbinger of a new great power confrontation - when Russia and the US would again arm their allies in a proxy war. He obvi-ously had in mind, but did not explicitly mention, the Serbs

as Russia's proxy. This was not the Mr Kozyrev who became foreign minister in 1991 and who has stuck - despite constant rumours of forced resignation - to his post ever since. But the country's mood towards foreigners has changed greatly and Mr Kozyrev with it it is the reason for his survival.

The swing to the nationalist right and left in the elections of last December is usually held responsible for this, but

Only Estonia among the three Baitic states still has no agreement and the negotiations remain tense and mutually abrasive

that is only true in part. Some time before, the country's politicians had begun to make quite sharp corrections to a pro-western foreign policy which even western dip lomate thought excessive. Russia had rediscovered its "interests" and it is still doing so.

As now expressed, these interests include: A concentration on the near abroad," the Russian designation for the 14 other former Soviet states, most of which have a common border with Russia and all of which are still strongly linked to it by economic, political and secu-

he lure of Russian gold is

finally paying off with a start to foreign invest-

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John Lloyd sees a change in foreign policies

Confrontation is a possibility

Russia, the former Soviet states and for the "far abroad" is not all had - although some

The good news is that Russian troops are withdrawing or have withdrawn from Lithua-nia and Latvia: only Estonia among the three Baltic states still has no agreement (and the negotiations remain tense and mutually abrasive) – but both Estonian and Russian officials still say they expect one. Further, the states which

make up the Commonwealth of dent States, which include all former Soviet countries except the Baltics, are now prepared to work togeth more closely than in the first two years of that organisation's life. They lack properly functioning bureaucracies to implement the network of agreements they have signed between themsel are now making efforts to moderate the burst of destructive protectionism in which they indulged immediately after the collapse of the Soviet Union.

The bad news is that the CIS is not a common market, has no properly working interstate economic mechanism or banking agreement and most of the non-Russian states are extremely dependent on Russia - to the point of being vulnerable to, and suffering from,

Was A ZEVE 1.

ambiguity about Russian mili-tary and security activities there - always interpreted by Russia as necessary measures to keep the peace and preserve or bring back stability, but interpreted by some at least in the west, and on occasion by the other former Soviet states, as more or less dangerous moeuvring to further Rus-

in the past year, the west has drawn a rough line under the Baltic states, saying that these at least should not be

Russia is likely to be accepted as a 'political' member of the Group of Seven advanced industrial countries in

Naples next month

touched and must be cleared of Russian troops: for the rest, it

averts its gaze. • An effort to strike a relationship with the US and with Nato which confirms Russia's "great power" status - even as that status is more and more under question in any but the field of nuclear weapons. This is proving hard: although the Russians proba-

bly will sign up to the Partnership for Peace - the Nato-inspired plan to bring the former communist countries into association with it while withholdcentral European states which reluctance. This is accompanied by demands for a special status to be recognised and codified and with a constant commentary that Nato should be subsumed into a larger organisation such as the Conference for Security and Co-operation in Europe - a trend which could serve as a warning for the future. Russia is also likely to be

accepted as a "political" member of the Group of Seven advanced industrial gountries in Naples next month—a membeachip which will give its poli-ticians the sense of helonging to a wealthy club but which will impose responsibilities for which their reduced circumstances badly fit them.

It will be a further mark of

acceptance by the interna-tional community that reforms continue or are at least deemed to continue - the other this year was the granting of a \$1.5bn loan by the interna-tional Monetary Fund - but it comes when Russia is proving a prickly and difficult partner and when much comment in the west points to the impos bility of a real "partnership" with a country whose interests are seen by itself as being so different from those of most western states.

Russia wishes to be both of Europe and out of it: although tern Europe, and in particular Germany, remains the second most important focus of its



diplomacy after the CIS, it cannot forget its Eurasian nature and cannot take its place as simply a bigger more eastern.

 Its relations with the countries to its east and south have generally improved. China - now its largest trading partner - presents no quarrels for the first time for many years and seems as interest as is Russia in preserving good neighbourly relations. Visits by Mr Yeltsin and Mr Victor Chernomyrdin, the prime minister, confirmed the importance of the relationship.

India is no longer as close as

(Dry Gulch), Russia's largest hard-rock gold deposit. It has

promised to invest \$250m in

enzoloto, the local Siberian

producer in which it holds 31

per cent, up from an initial proposal to invest \$150m. The

aim of the project is to raise Lenzoleto's annual production

the Soviet Union to balance western influence on it - but there is no tension. Of the leading states to the east, only with Japan does suspicion and a certain animus remain, expressed over the Kurile Islands or Northern Territories taken by the Soviet Union at the end of the last war, and whose return Japan demands before it puts its diplomatic relationship

For the rest of the world Russia has largely withdrawn. The former Soviet satellites find little interest and no sup-

with Russia on a normal foot

port from a state now forced to weigh expenditure much more carefully than in the past, and with no ideological profit to be gained from buying their alli-

Before this year, this withdrawal was accompanied by a commensurate absence from many of the theatres of the world where the most important states, above all the US, were playing a mediatory or controlling role. In the past year, however, Russian diplo-macy has again become more active - insisting on being taken into account in the for-

mer Yugoslavia, in the Middle

East and in the present crisis in North Korea In each case it has proposed distinctive approaches and though often posing a challenge has so far been accom-modated without major ruc-tions. Mr Kozyrev's challenge over Bosnia, however, raises

the question of how long this will continue to be so. Russia has, in this past year, shown it will advance its interests. It has not so far pushed these to direct confrontation with those of other leading new-found friendship. But the possibility now exists.

Leyla Boulton on developments in the gold-mining sector

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Over the past month, two unprecedented gold-mining dles to more than a third of a billion dollars' worth of investment. The Russian gold mining industry, previously a itself starved of capital follow-

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try which is the world's sec-Dozens of Russian compasteadily falling. This in turn nies have already won conhas forced Russia, despite its deep-rooted fears of "selling tracts to develop smaller deposits concentrated mainly off the family silver", to look in Siberia. But the two foreign ficult deposits, are the first of projects requiring sophisti-

their kind following the successful conclusion of more

than two years of negotiations. After altering its initial plan to meet objections from Russian authorities, Star Mining, a small Australian exploration company, has all but finalised a deal to develop Sukhot Log

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to 2m ounces in six years, bout three quarters of which would come from Sukhoi Log. Earlier this month, the Over-seas Private Investment Corporation (Ovic) of the US and the European Bank for Reconstruction and Development loans and investment guarantees for the development of the

The project soon ran into trouble with Russian authorities

Kubaka deposit in Russia's Far East. The tender for the project was won last June by a joint venture between Cyprus Amax Minerals of the US and five regional mining compa-

But, responding to companies' nervousness about investing in Russia, Opic will provide investment guarantees of \$55m plus \$150m insurance cover against expropriation and political violence. The EBRD will lend the project a further \$55m. The aim is to produce 326,000 ounces of gold and 255,000 ounces of silver a

The contrasting histories of the two deals speak volumes about the gradual improveclimate since the launch of market reforms in 1992.

market reforms in 1992.

While big companies remained on the sidelines, Star – invited by Mr Boris Yeitsin, the Russian leader, to scout for mining opportunities in Russia before it even became an independent state with the collapse of the Soviet Union – directly negotiated a joint venture with Lenzoloto, a local Siberian producer. But the project soon ran into trou-



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ble with Russian authorities who argued that the deal did not meet the requirements of either the nation's interests or its fast-changing legislation. A main objection was that the leposit should have been put to tender, while Star and Lenzoloto argued that they had concluded their deal before new legislation was passed requiring all new deposits to be put to tender.

Coming in later than Star

Cyprus Amex Minerals faced a much smoother ride because ground rules making tenders compulsory were already clearly established. Mr Adrian Ball, Moscow representative for Morgan Grenfell, the investment bank which acted as adviser to the western parties, says the deal also received powerful support dan province, which stands to receive rich tax returns from the deal. Mr Ball points out that taxation is so high, however, that the deal is only just

Mr Boris Yatskevich, deputy chairman of the state commit-tee which is responsible for issuing mining licences, agrees that taxation remains far too high by international stan-

dards.

But having led objections to the Star deal, he said he had the Star deal, he said he had agreed to drop his legal quibbles after Star improved their terms. "Today Lenzoloto, with 7,500 employees, is on the edge of bankruptcy. It is not possible to torture them any further."

The Russian government also stepped in to ease objec-tions from local authorities in the eastern Siberian province of Irkuisk by giving them 10 per cent of the equity in the project. It is now up to the irkutsk administration to finally endorse the deal.

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LAW AND ORDER

Fresh Rbs3,000bn attack on crime

businessmen in Moscow on the same day this month provided a brutal impulse for Russian President Boris Yeltsin to declare all-out war on organ-

In broad daylight, right outside Paveletsky railway station, the driver of the chief of Logovaz, a big car-dealing company, had his head blown off although his boss, Mr Boris Berezovsky, escaped unscathed. The other intended escaped victim, the manager of a smaller company, was less for-tunate: a car-bomb earlier in the day cost him his leg.

A few days later, on June 10, President Yeltsin announced he had ordered the security services to "cleanse Russia of criminal filth". The interior minister, prosecutor-general, and head of the domestic intelligence service promptly unveiled a new Rbs3,000bn programme to fight crime. Mr Yeltsin said they would be held personally responsible for its success in beating back criminal forces who were trying to "seize control of the economy and push their way into poli-

He followed this up in mid-June with a presidential decree giving security forces unprece-dented powers to fight organised crime, including the right to detain suspects without charge for 30 days and the right to search the premises and bank accounts of any company suspected of illegal deal-

The measures were promptly denounced as unconstitutional by parliament and the liberal media, which warned of a possible return to to Russia's more repressive past. Given an overwhelming public longing for law and order, a successful crackdown could prove the greatest vote-spinner for a government unlikely to deliver

reform. But criminals' close links to corrupt police and officials provide the strongest reason to doubt the likelihood of a successful campaign against Russia's so-called "mafia".

The word "mafla" is widely used in Russia to mean anything from organised crime to extortion by officials seeking bribes. The crime problem is unique because of its intimate connections to an inherently corrupt economy and bureaucracy inherited from the Com-Mr Grigory Yavlinsky, a

More than a dozen bankers have been gunned down in contract

killinas

renowned Russian economist and presidential hopeful. argues that the old state-run Soviet economy was designed for lawlessness

He says its vestiges - such as a reliance on personal patronage, excessive discretionary powers for bureaucrats, and a very high degree of monopoly in the economy - need to be dismantled if there is any chance of making inroads against crime and racketeer

How dangerous is Russia today? In term of statistics for ordinary crime, a big city such as St Petersburg is no more dangerous than the more crime-ridden cities of Europe, and is safer than New York or

Washington.
Major-General Arkady Kramariev, the St Petersburg police chief, says that the higher levels of crime in Russia's second city - 845 murders last year compared to 150 a decade ago - correspond more closely to a free market economy than previous low levels

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prevailing under the old police state. The difference between Russia and the west is that police who are underpaid, uninsured and demoralised are unlikely to do much to solve

Much of the violence can be blamed on an antiquated legal system's inability to meet the requirements of a market economy. Because the courts take so long to solve commercial disputes, Maj-Gen Kramariev says that "Judge Kalashnikov" remains the most reliable way to recover debts.

This is true of any sphere of activity in Russia. But bank-ing, as one of the most profitable businesses in an ailing economy, provides a useful starting-point for exploring organised crime's involvement in the economy.

More than a dozen bankers have been gunned down in contract killings over the past couple of years but not one of these crimes has been solved. The victims were believed to have rejected extortion attempts or to have become too deeply involved with unsavoury customers

Given that Russia has no guidelines on money laundering, it is not surprising that Mr



New weapons to help fight crime: a Russian policeman with 9mm pistol, 23mm shotoun and builet-proof helmet and face quard

Dmitry Tulin, deputy governor of the central bank, admitsthat "any banks may have customers related to illegal, underworld activities".

Mr Tulin, in charge of banking supervision and restructuring, categorically rejects, together with other Russian officials and bankers, some of the more far-fetched western speculation that the entire

banking sector is run by the But while top bankers usually have the means to protect themselves - Mr Vladimir Gussinsky, chairman of Most-

Bank, says his construction and banking group has a security force of 650 men - many smaller businesses have no choice but to pay up and shut



The same differences apply to foreign companies. Big multinationals which are beginning to invest in Russia and do not operate small cash-based inesses are unlikely to do deals with the mafia. But smaller outfits, such as new foreign restaurants in Moscow, or retail outfits, are asked to pay protection money, and

Pears are often expressed that organised crime and extortion are stifling economic reforms and growth.

While these problems do discourage many newcomers, the hardier entrepreneurs have simply adjusted to a business climate in which most participants find they have to break the law in one way or another in order to prosper. In this con-

plain that the mafia is less of a problem than the corrupt bureaucracy or over-burdensome taxation.

Mr Sergei Kiementiev, a private farmer with a small farm and entrepreneur in the province of Nizhny-Novgorod, is doing exactly what bold agricultural reforms in the province are designed to achieve, He is challenging the state trading and food-processing monopolies by taking milk directly to town to sell it more cheaply to consumers. But he says he also has to pay protection money to "small-time crooks" who otherwise threaten to damage his retail

ofstal

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However, he says paying protection money to the same people on a regular basis is the least of his problems, in so far as "nobody else comes and asks for money". Without even bothering to go to the police he is far more concerned that the government should lessen taxation on his busines

Perhaps the main victim of organised crime is public opinion, which widely perceives market reforms as giving greater freedom to the "mails" while impoverishing the qual ity of their lives. It is for this reason, if only to fend off the coming-to-power of more ruthless extremists who promise summary executions and plan dictatorship, that Russia must hope President Yeltsin can toe a fine line between restoring order and returning to the arbitrary rule of the commu-

hotels, restaurants and shops

in Moscow and St Petersburg

has been rapid in the past

three years, transforming the facilities for visiting and resi-

dent foreigners and for the

growing, if still small, propor-tion of wealthy Russians.

Prices are very high by inter-

are grossly out of line with ser-

vice. However, their develop-

ment has meant that discom-

fort need not necessarily be an

inevitable accompaniment of

the business traveller.

national standards and often

Leyla Boulton

A GUIDE FOR VISITORS

responsibilities.

Stable business can be done

oing business in Russia has become in some ways more, in some ways less, taxing. The more

The Russian language is difficult, although it is a worthwhile courtesy to learn a few words. Few people speak

English and interpreters should be carefully chosen. It is thus both time-saving and sensible to learn as far as possible before travelling what officialdom will require of you. Most international airlines

erve Moscow and many serve St Petersburg. However, Aeroflot and the independent companies, which have been created from its partial breaking-up, dominate the

These are usually bad, sometime very bad. Like most areas in which foreigners operate, they are charged more for the same low service. However. genuinely private airlines are beginning - of which Transaero, with several destinations within Russia and the former Soviet Union, is the best. Travel agents should be con-

Outside of Moscow and St Petersburg, food and hotels are at best adequate. If travelling widely, bookings should be

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made well in advance and con-firmed shortly before arrival Elementary items, such as towels and bottled water, should be taken and the traveller must be prepared to be patient and to wait.

Although there is a tradition of warm hospitality in most parts of Russia, there is little ness: thus, public encounters are often abrasive and can quickly degenerate into squabbling. Sometimes shouting works, sometimes it makes

Negotiation and reaching agreement can be harder than in settled economies, although far from impossible and often more rewarding. The underlying issues which must be carefully examined are those of property rights, especially of land, legislation and taxation.

The first can be ver that is in large part either because the law is vague and because title, even when apparently firmly vested, can in practice be hard to establish in court if challenged. The second, legislation, is a minefield of overlapping and contradictory laws which produce the effect of a field of struggle between the actors, rather

than a reasonably ordered code

prime minister, has recently promised to reduce taxes and to grant tax holidays to foreign These issues can, of course, be clarified by reference to consultants, lawyers and accoun-

tants, of which there are now many - Russian and foreign - in Moscow, St Petersburg and, to a much le extent, elsewhere. But the advice cannot solve the basic problem that huge confusion exists in all these areas. Last on the downside: a busi-

ness culture is only developing in Russia and in the other former Soviet states. This means that Russian business people can display one or more of the following characteristics: an extreme naivety which foreigners were and are not slow to exploit; extreme suspicion, which bedevils relationships, certainly at first; extreme untrustworthiness, which gives rise to the saying that Russian business people start to negotiate after an agreement

has been signed.
All of these views, made famous by anecdote, have a basis but they can be moder ated by care and checking. The number of foreign companies - Unilever, ABB, Brown Boveri, BAT, Proctor & Gamble, United Technologies and others - which are now investing with success or the expectation of it, show that the basis

which defines rights and for business and profits exists. albeit on a fragile foundation. Taxation, which for the This has led us to the upside: it is a function of the steady moment is seen - especially by

the oil companies - as usually opening-up of Russia and its the most severe problem, is neighbours which causes pain but which, nevertheless, con-tinues. Russian politicians and serious because of the height of taxes and because of their officials, whatever their past variability. Companies, both Russian and foreign, must and present views, are - often often pay taxes which can reluctantly - constrained to work within an economy amount to more than their which is being pulled towards that of the world economy; it is income: a clearly unsustainable position which is solved by no longer possible to adopt an Mr Victor Chernomyrdin, the autarchic policy on either investment or on industrial

structure.

lthough Russia has been independent for a little over three years only and though legislation and policies to create a full market structure are even younger, it is already evident that many, cially younger. Rus working in new sectors such as finance and banking, have experienced a steep learning curve and are auxious to reach standards of professionalism equal to those in developed economies. Increasingly, these are the people with whom for-

eign business visitors are working and collaborating. The influx of foreign capital, still slow compared with other developing countries, will be encouraged in the second part of this year by new laws and regulations prepared for the next phases of the privatisa-

tion process. Mr Anatoly Chubais, the deputy prime minister in charge of privatisation, has announced that the new privatisation programme will be designed to encourage much more rapid and significant strategic investment in the privatised Russian companies and has said that he wishes to attract much more foreign investment than he was able to do in the

Already, foreign companies

large and small have taken generally modest shares in the orivatised companies and there are signs that some of them are prepared to go much further - buying out companies, creating majority shareholdings and making partnerships with Russian companies in key market sectors. The experience of those few

companies which have already done so shows that, in spite of the macro-economic problems afflicting Russia, good and sta-ble business can be done if the ground is well prepared.

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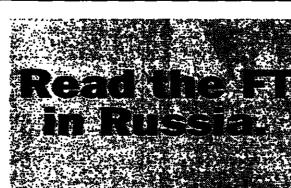
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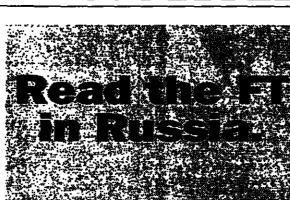
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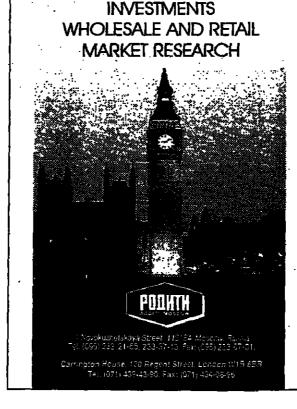
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